SASKENERGY INCORPORATED
AND
SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2006

SASKENERGY INCORPORATED AND SUBSIDIARIES
FINANCIAL STATEMENTS
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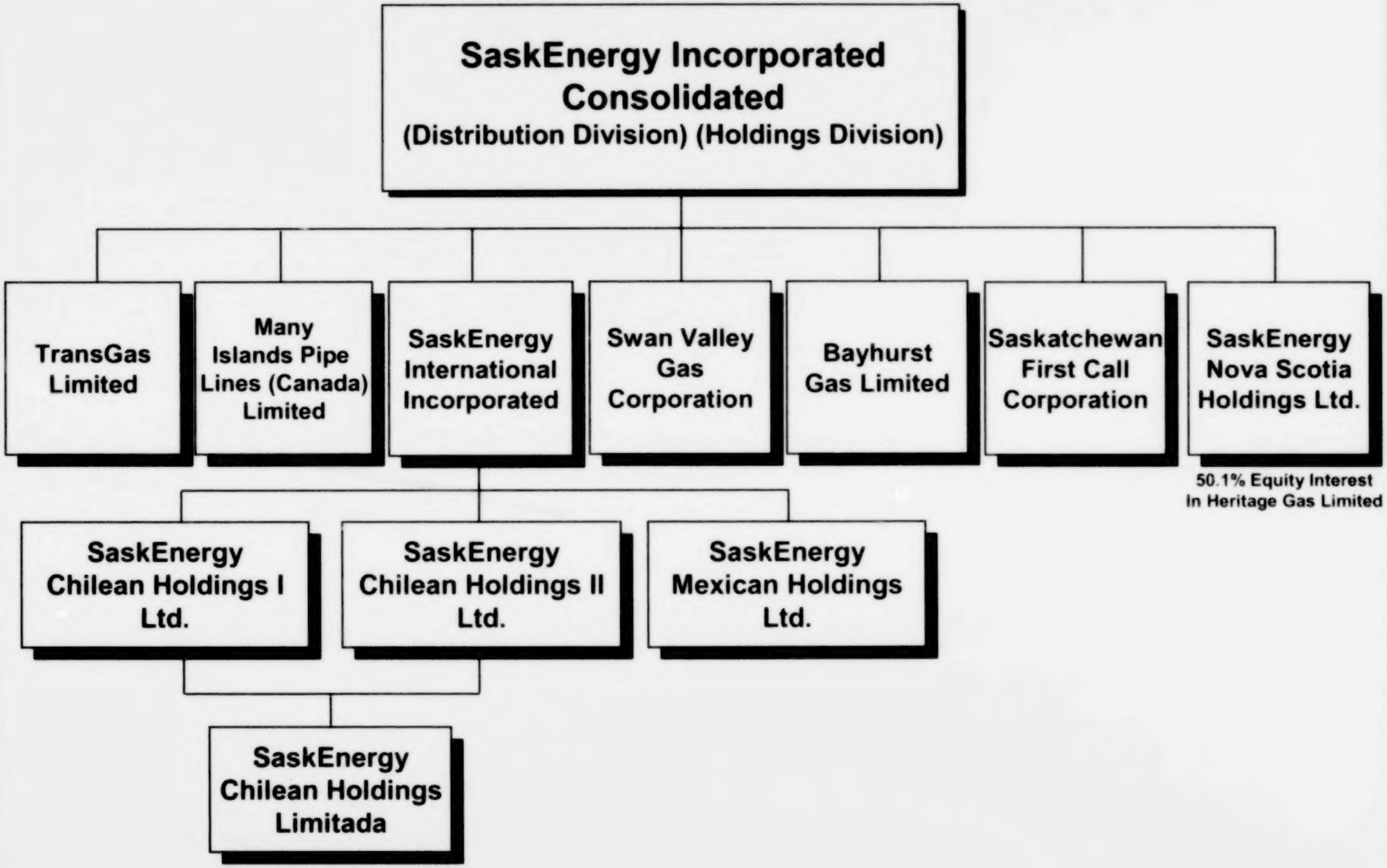

SaskEnergy Incorporated Consolidated
(Distribution Division) (Holdings Division)

- TransGas Limited
- Many Islands Pipe Lines (Canada) Limited
- SaskEnergy International Incorporated
  - SaskEnergy Chilean Holdings I Ltd.
  - SaskEnergy Chilean Holdings II Ltd.
    - SaskEnergy Chilean Holdings Limitada
  - SaskEnergy Mexican Holdings Ltd.
- Swan Valley Gas Corporation
- Bayhurst Gas Limited
- Saskatchewan First Call Corporation
- SaskEnergy Nova Scotia Holdings Ltd.

50.1% Equity Interest
In Heritage Gas Limited

SASKENERGY INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY INCORPORATED
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ -	$ 1,572
Accounts receivable (Note 4)	170,310	215,614
Natural gas in storage held for resale	110,802	139,255
Inventories of supplies	7,029	7,346
	288,141	363,787
Property, plant and equipment (Note 5)	955,169	946,947
Investments and other assets (Note 6)	32,872	32,225
Natural gas in storage held for resale and operations	46,040	28,030
	$ 1,322,222	$ 1,370,989
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	$ 2,362	$ -
Short-term debt (Note 7)	68,800	80,500
Accounts payable (Note 8)	182,851	237,591
Dividend payable	12,200	5,200
Current portion of long-term debt (Note 7)	53,381	71,637
	319,594	394,928
Long-term debt (Note 7)	590,628	582,279
	910,222	977,207
Province of Saskatchewan's equity		
Equity advances (Note 9)	71,531	71,531
Retained earnings	342,535	323,878
Foreign currency translation adjustment (Note 6)	(2,066)	(1,627)
	412,000	393,782
	$ 1,322,222	$ 1,370,989

Commitments and contingencies (Note 10)

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

SASKENERGY INCORPORATED

Consolidated Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Commodity sales	$ 388,926	$ 376,083
Gas marketing sales	594,429	643,991
Delivery	153,281	156,191
Transportation and storage	87,481	87,890
Revenue collected for municipalities (Note 11)	23,268	27,673
Other	6,561	6,901
	1,253,946	1,298,729
Expenses		
Commodity cost of gas sold	415,560	418,296
Saskatchewan Energy Share (Note 3)	(20,530)	(53,620)
Net commodity cost of gas sold	395,030	364,676
Gas marketing cost of gas sold	557,657	599,388
Operating and maintenance	120,968	125,075
Interest (Note 7)	43,835	46,974
Amortization (Note 5)	52,945	51,267
Payment to municipalities (Note 11)	23,268	27,673
Saskatchewan taxes (Note 12)	7,086	6,929
	1,200,789	1,221,982
Net earnings	53,157	76,747
Retained earnings, beginning of year	323,878	276,431
Dividends	(34,500)	(29,300)
Retained earnings, end of year	$ 342,535	$ 323,878

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 53,157	$ 76,747
Add (deduct) items not requiring an outlay of cash		
Amortization	52,945	51,267
Other non-cash items	(1,450)	(1,467)
	104,652	126,547
Net change in non-cash working capital related to operations (Note 13)	19,334	(7,511)
Cash provided by operating activities	123,986	119,036
Investing Activities		
Additions to property, plant and equipment	(71,464)	(58,596)
Additions to investments and other assets	(2,459)	(1,649)
Capital contributions received (Note 5)	10,297	9,843
Increase in natural gas in storage - non-current	(18,010)	(2,977)
Cash used in investing activities	(81,636)	(53,379)
Financing Activities		
Increase in bank indebtedness	2,362	-
(Decrease) increase in short-term debt	(11,700)	1,600
Sinking fund redemptions	-	11,058
Sinking fund instalments	(5,040)	(5,540)
(Increase) decrease in deferred charges	891	(851)
Proceeds from long-term debt	38,662	77,806
Repayments of long-term debt	(41,597)	(101,195)
Dividends paid	(27,500)	(50,600)
Cash used in financing activities	(43,922)	(67,722)
Decrease in cash during the year	(1,572)	(2,065)
Cash position, beginning of year	1,572	3,637
Cash position, end of year	$ -	$ 1,572

(See accompanying notes)

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2006

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy and its wholly owned subsidiaries own and operate natural gas related businesses located both within and outside Saskatchewan.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 17. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

b. Natural gas in storage

i. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2007 with the remainder classified as non-current.

2. Summary of Significant Accounting Policies (continued)

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

f. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

2. Summary of Significant Accounting Policies (continued)

g. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as of December 31, is included in revenue.

Revenue from natural gas marketing is recorded in the financial statements upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

h. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, risk management derivative financial instrument settlements, mark to market adjustments on outstanding risk management derivative financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

i. Gas marketing sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices, up to the date of settlement, are recorded as gains or losses in the period of change.

2. Summary of Significant Accounting Policies (continued)

j. Derivative financial instruments

The Corporation uses various derivative financial instruments to manage the risk associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

The Corporation can designate a derivative financial instrument as a hedge for accounting purposes when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative financial instruments. If correlation ceases or the Corporation terminates its designation of the derivative financial instrument as a hedge for accounting purposes, future changes in the market value of the derivative financial instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative financial instruments may be used for price risk management to fix the settlement amount. The types of derivative financial instruments SaskEnergy uses for price risk management include natural gas price swaps, options, swaptions and futures contracts. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings in the cost of gas.

ii. Foreign currency exchange and interest rate risk management

The Corporation uses derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings.

2. Summary of Significant Accounting Policies (continued)

k. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

l. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

m. Saskatchewan Energy Share

The Corporation was authorized to receive an appropriation from the Government of Saskatchewan under Saskatchewan Energy Share. The amounts eligible to have been received from the appropriation were recorded in the month in which the natural gas was sold.

3. Saskatchewan Energy Share

On November 29, 2005, the Government of Saskatchewan approved an appropriation of $123,940 thousand (titled - "SaskEnergy Incorporated Vote 77") to establish Saskatchewan Energy Share. Saskatchewan Energy Share is intended to reduce the cost of natural gas sold by SaskEnergy to its rate regulated customers. The appropriation related to the period November 1, 2005 to March 31, 2006 as it was designed to assist natural gas consumers in dealing with high natural gas prices during the winter of 2005/2006.

3. Saskatchewan Energy Share (continued)

The financial impact of Saskatchewan Energy Share is as follows:

a. Through Saskatchewan Energy Share, the Government of Saskatchewan appropriated up to $92,040 thousand which was eligible to be used by SaskEnergy to cap the cost of natural gas sold at $7.95 per Gigajoule. The appropriation related to natural gas sold to customers during the period November 1, 2005 to March 31, 2006. For each month during this period, SaskEnergy calculated its actual cost per Gigajoule of natural gas and compared this amount to the cap of $7.95 per Gigajoule. When SaskEnergy's actual cost of gas was above the cap of $7.95 per Gigajoule, the General Revenue Fund paid SaskEnergy an amount required to reduce the cost of gas down to the cap of $7.95 per Gigajoule. Accordingly, for the months of January, February and March of 2006, SaskEnergy received $20,530 thousand (2005 - $21,917 thousand) from the General Revenue Fund which has been included in the cost of gas.

b. During 2002 and 2003 SaskEnergy sold natural gas to customers below its cost. A portion of these under-recovered costs were received from customers between June, 2003 and October 31, 2005. As at October 31, 2005, SaskEnergy had not yet recovered $31,703 thousand of this past under-recovery. In order to alleviate customers from having to pay SaskEnergy for these past costs, $31,703 thousand was paid to SaskEnergy in 2005 by the General Revenue Fund. As a result SaskEnergy has been fully reimbursed for these past costs.

c. Certain natural gas consumers in Lloydminster, Saskatchewan receive their natural gas service from Direct Energy Regulated Services (a supplier based in Alberta). Under Saskatchewan Energy Share, $1,000 thousand was allocated to provide eligible Lloydminster customers with a one time credit of $200. A total credit of $550 thousand was provided to these customers in 2006. SaskEnergy reimbursed Direct Energy Regulated Services for the total amount of the credit and then in turn recovered this amount from the General Revenue Fund.

4. Accounts Receivable

	2006	**2005**
	(thousands)	
Trade accounts	**$ 46,042**	$ 48,913
Unbilled revenue	**119,834**	146,961
Other accounts	**4,434**	19,740
	$ 170,310	$ 215,614

5. Property, Plant and Equipment

	2006			2005		
	(thousands)					
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Transmission and storage	**$ 656,930**	**$ 207,029**	**$ 449,901**	$ 627,211	$ 189,961	$ 437,250
Distribution	**655,938**	**209,933**	**446,005**	629,883	190,999	438,884
Gathering, treatment and compression	**157,724**	**65,673**	**92,051**	141,256	61,309	79,947
Vehicles, equipment and other	**170,338**	**96,908**	**73,430**	165,735	96,030	69,705
Franchise acquisition costs	**1,668**	**200**	**1,468**	1,668	133	1,535
Royalty interest	**6,509**	**6,509**	**-**	6,509	6,509	-
Construction in progress	**22,887**	**-**	**22,887**	43,744	-	43,744
	$ 1,671,994	**$ 586,252**	**1,085,742**	$ 1,616,006	$ 544,941	1,071,065
Less:						
Unamortized customer capital contributions			**130,573**			124,118
			$ 955,169			$ 946,947

Property, plant and equipment includes $26,115 thousand (2005 - $16,850 thousand) which represents the Corporation's 50.1 per cent proportionate interest in the assets of Heritage Gas Limited.

Franchise acquisition costs relate to the costs required to acquire the franchise for the distribution of natural gas in the Province of Nova Scotia.

5. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2006	2005
	(thousands)	
Balance, beginning of year	**$ 124,118**	$ 117,875
Contributions received	**10,297**	9,843
Amortization of contributions	**(3,842)**	(3,600)
Balance, end of year	**$ 130,573**	$ 124,118

b. Amortization

	2006	2005
	(thousands)	
Amortization of property, plant and equipment	**$ 56,787**	$ 54,867
Amortization of customer capital contributions	**(3,842)**	(3,600)
	$ 52,945	$ 51,267

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.45 per cent during 2006 (3.44 per cent during 2005).

6. Investments and Other Assets

Investments and other assets are as follows:

	2006		2005	
	Amount (thousands)	**Per cent Ownership**	**Amount (thousands)**	**Per cent Ownership**
a. Equity investments				
i. Gas Sur S.A.				
Initial investment	**$ 13,784**	**30.0**	$ 13,784	30.0
Equity earnings	**1,506**		864	
Foreign currency translation adjustment	**(597)**		(118)	
	14,693		14,530	
ii. Igasamex USA Ltd.				
Initial investment	**10,880**	**40.1**	10,880	40.1
Equity earnings	**1,041**		509	
Foreign currency translation adjustment	**(1,469)**		(1,509)	
	10,452		9,880	
	25,145		24,410	
b. Other receivables	**5,167**		2,708	
c. Deferred charges				
Unamortized deferred financing costs	**2,560**		4,170	
Unamortized past service costs	**-**		937	
	2,560		5,107	
	$ 32,872		$ 32,225	

Equity investments:

i. Gas Sur S.A.

The Corporation's 30 per cent share of Gas Sur S.A.'s 2006 net earnings was $642 thousand (2005 - $378 thousand). The Corporation's share of the foreign currency translation adjustment for 2006 resulted in a $479 thousand reduction in the balance of the investment in Gas Sur S.A. (2005 - $641 thousand increase). The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2005 - $5,100 thousand).

ii. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2006 net earnings was $532 thousand (2005 - $295 thousand). The Corporation's share of the foreign currency translation adjustment related to the investment in Igasamex USA Ltd. for 2006 resulted in a $40 thousand increase in the balance of the investment in Igasamex USA Ltd. (2005 - $342 thousand reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,800 thousand (2005 - $4,900 thousand).

7. Long-Term and Short-Term Debt

Years to Maturity	2006 Principal Outstanding (thousands)	2006 Average Fixed Interest Rate (per cent)	2005 Principal Outstanding (thousands)	2005 Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	$ 241,966	7.5	$ 308,564	7.6
6 - 10	188,662	4.9	150,000	4.9
11 - 15	33,971	6.7	33,971	6.7
16 - 35	210,000	6.9	185,000	7.1
	674,599		677,535	
Less sinking fund equity	(38,211)		(31,240)	
Less due within one year	(53,381)		(71,637)	
Due to Province of Saskatchewan	583,007		574,658	
Other	7,621	8.5	7,621	8.5
	$ 590,628		$ 582,279	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.67 per cent for 2006 (10.7 per cent for 2005).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

7. Long-Term Debt (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2007	**2008**	**2009**	**2010**	**2011**
Principal	$ 47,705	$ 75,126	$ 39,136	$ 80,000	$ -
Sinking fund instalments	5,676	5,376	5,126	5,126	4,326
	$ 53,381	$ 80,502	$ 44,262	$ 85,126	$ 4,326

d. Short-term debt

During 2006, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 3.96 per cent (2005 - 3.2 per cent).

Short-term debt at December 31, 2006 consists of $68,800 thousand (2005 - $80,500 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 4.22 per cent (2005 - 3.44 per cent).

e. Interest expense

Interest expense was as follows:

	2006	**2005**
	(thousands)	
Interest expense on long-term debt	**$ 45,939**	$ 52,755
Interest expense on short-term debt	**2,453**	426
Amortization of deferred financing costs	**719**	826
Sinking fund earnings	**(1,932)**	(3,796)
Interest allocation to cost of gas sold	**(3,036)**	(2,633)
Interest capitalized	**(308)**	(604)
	$ 43,835	$ 46,974

Cash interest paid during 2006 on long-term debt was $46,445 thousand (2005 - $53,567 thousand).

8. Accounts Payable

	2006	2005
	(thousands)	
Supplier payables	**$ 119,823**	$ 177,895
Interest payable	**12,107**	12,631
Other payables	**50,921**	47,065
	$ 182,851	$ 237,591

9. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. Financial Instruments, Commitments and Contingencies

Financial Instruments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	**$ 682,220**	**$ 778,632**	$ 685,156	$ 798,202
Sinking fund equity	**38,211**	**39,681**	31,240	33,087
Natural gas price derivatives owed to (by) SaskEnergy				
- swaps	**-**	**5,124**	(2,329)	2,362
- options	**(13,302)**	**(13,173)**	1,896	(4,090)

The fair values of the above instruments were based on the following:

i. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity – The market value of the investments held in the sinking fund as at year end.

10. Financial Instruments, Commitments and Contingencies (continued)

iii. Natural gas price swaps – The relevant index price in effect as at year end. Swap contracts have been entered into for 2007 to 2011.

iv. Natural gas price options – The relevant index price in effect as at year end. Option contracts have been entered into for the period January, 2007 to October, 2007.

The carrying values of other financial instruments (accounts receivable, bank indebtedness, short-term debt, accounts payable and dividend payable) approximate fair value.

b. The Corporation has entered into forward purchase agreements to purchase 4.7 Petajoules and sell 3.8 Petajoules of natural gas during 2007.

c. The Corporation has entered into natural gas price swaps with counterparties, to fix the selling price of 5.8 Petajoules committed for sale during 2007 through 2011 and to fix the purchase price of 0.4 Petajoules in 2009.

d. The Corporation has entered into natural gas price options contracts to manage the risk associated with the purchase of 0.4 Petajoules and the sale of 0.9 Petajoules of natural gas during 2007.

e. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties. At December 31, 2006 the maximum credit exposure to a single counterparty was $5,341 thousand (2005 - $15,226 thousand).

f. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand (United States dollars).

g. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

10. Financial Instruments, Commitments and Contingencies (continued)

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

Leases

Lease payments are as follows: (thousands)

2007	2008	2009	2010	2011	Thereafter	Total
$ 1,629	$ 1,625	$ 1,582	$ 2,388	$ 111	$ -	$ 7,335

11. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the consolidated statement of earnings. In 2006, revenue collected and paid to municipalities was $20,542 thousand (2005 - $20,737 thousand).

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of earnings. In 2006, revenue collected and paid to municipalities was $2,726 thousand (2005 - $6,936 thousand).

12. Saskatchewan Taxes

	2006	2005
	(thousands)	
Corporate capital tax	$ **5,424**	$ 5,350
Mitigation payments and property taxes	**1,662**	1,579
	$ **7,086**	$ 6,929

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

13. Net Change in Non-Cash Working Capital

	2006	2005
	(thousands)	
Accounts receivable	$ **45,304**	$ (41,888)
Natural gas in storage held for resale	**28,453**	(43,289)
Inventories of supplies	**317**	(503)
Accounts payable	**(54,740)**	78,169
	$ **19,334**	$ (7,511)

14. Related Party Transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

14. Related Party Transactions (continued)

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2006	2005
	(thousands)	
Revenue	$ 47,857	$ 39,024
Operating expenses	28,004	27,172
Customer capital contributions	4,582	4,386
Accounts receivable	2,813	2,886
Accounts payable	514	549

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

15. Support for La Ronge Natural Gas Service Project

On December 4, 2006 the Government of Saskatchewan approved an appropriation of $7,000 thousand (titled - "SaskEnergy Incorporated Vote 77") to establish support for the La Ronge Natural Gas Service Project. The funding is required to support a SaskEnergy project to extend natural gas to La Ronge and Weyakwin in central Saskatchewan. This $7,000 thousand payment will supplement an investment made by SaskEnergy and contributions by residential and commercial customers. Funding from the General Revenue Fund, a related party, is to be received in 2007. Funding is conditional upon the project obtaining the necessary service commitments from customers. As a result, no amount has been recorded in the Corporation's financial statements as of December 31, 2006.

16. Employee Future Benefits

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $3,087 thousand (2005 - $2,925 thousand) on behalf of employees for current services.

16. Employee Future Benefits (continued)

b. Retiring allowance plan

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2006	2005
	(thousands)	
Accrued benefit liability	**$ 13,962**	$ 13,957
Benefits paid during the year	**977**	556
Net expense	**1,918**	4,520

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2006	**2005**
Discount rate	**4.50 per cent**	4.50 per cent
Inflation rate	**2.50 per cent**	2.50 per cent
Average remaining employee service life	**11.4 years**	13.2 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

17. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of the following entities is as follows:

a. SaskEnergy Incorporated (SaskEnergy)

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2g. SaskEnergy's delivery revenue was $146,322 thousand for 2006 (2005 - $150,507 thousand) and commodity revenue was $386,039 thousand for 2006 (2005 - $374,525 thousand).

Cost of gas sold is accounted for in accordance with the policy described in note 2h.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies disclosed in note 2g. The balances accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

b. TransGas Limited (TransGas)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2g. TransGas transportation revenue was $71,795 thousand for 2006 (2005 - $73,262 thousand).

17. Rate Regulation (continued)

c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2g. MIPL transportation revenue was $1,674 thousand for 2006 (2005 - $1,327 thousand).

d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $865 thousand for 2006 (2005 - $613 thousand) and commodity revenue was $761 thousand for 2006 (2005 - $691 thousand).

e. Heritage Gas Limited (Heritage Gas)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia. The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

ii. Regulatory process – delivery tariff

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The GTA process completed in 2006 established the revenue requirement and rates to be charged for the period January 1, 2007 to December 31, 2011.

iii. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use an RDA until it is fully recovered. The RDA changes based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

17. Rate Regulation (continued)

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. Heritage Gas projects to fully recover its RDA by 2019.

The RDA as at December 31, 2006 was $5,168 thousand (December 31, 2005 was $2,709 thousand). The effect of the RDA accumulation was to increase revenue in 2006 by $2,459 thousand (2005 - $1,650 thousand).

iv. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

v. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

vi. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

18. Heritage Gas Limited

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent interest of the Heritage Gas joint venture:

a. Consolidated statement of financial position

	2006	2005
	(thousands)	
Current assets	**$ 1,833**	$ 1,392
Property, plant and equipment	**26,115**	16,849
Regulatory receivable	**5,168**	2,709
Deferred charges	**189**	151
Current liabilities	**(2,776)**	(1,689)
Net investment	**$ 30,529**	$ 19,412

18. Heritage Gas Limited (continued)

b. Consolidated statement of earnings

	2006	2005
	(thousands)	
Revenue	**$ 5,800**	$ 3,118
Expenses	**(3,610)**	(1,769)
Net earnings	**$ 2,190**	$ 1,349

c. Consolidated statement of cash flows

	2006	2005
	(thousands)	
Cash used in operating activities	**$ (619)**	$ (355)
Cash used in investing activities	**(9,324)**	(7,682)
Decrease in cash	**$ (9,943)**	$ (8,037)

19. Segmented Information

SaskEnergy operates predominantly in the following two industry segments:

Distribution Distribution Division of SaskEnergy provides natural gas commodity and delivery services to customers in the Province of Saskatchewan.

Transportation TransGas Limited operates a major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end-use customers, marketers and export producers. This company also provides natural gas storage services.

Statement of Earnings

	Distribution				Transportation		Other[1]		Intercompany[2]		Total	
($ millions)	Commodity		Delivery									
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue												
Commodity sales	**386**	374	**-**	-	**-**	-	**3**	2	**-**	-	**389**	376
Gas marketing sales	**-**	-	**460**	545	**106**	62	**46**	40	**(18)**	(3)	**594**	644
Delivery	**-**	-	**155**	160	**-**	-	**5**	3	**(7)**	(7)	**153**	156
Transportation and storage	**-**	-	**-**	-	**130**	134	**4**	4	**(46)**	(50)	**88**	88
Revenue collected for municipalities	**-**	-	**20**	21	**3**	7	**-**	-	**-**	-	**23**	28
Other	**-**	-	**3**	3	**-**	-	**7**	8	**(3)**	(4)	**7**	7
	386	374	**638**	729	**239**	203	**65**	57	**(74)**	(64)	**1,254**	1,299
Expenses												
Commodity cost of gas sold	**415**	420	**-**	-	**-**	-	**3**	2	**(3)**	(3)	**415**	419
Saskatchewan Energy Share	**(20)**	(54)	**-**	-	**-**	-	**-**	-	**-**	-	**(20)**	(54)
Net commodity cost of gas sold	**395**	366	**-**	-	**-**	-	**3**	2	**(3)**	(3)	**395**	365
Gas marketing cost of gas sold	**-**	-	**449**	539	**104**	59	**23**	6	**(18)**	(5)	**558**	599
Operating and maintenance	**-**	-	**109**	113	**58**	63	**6**	5	**(52)**	(56)	**121**	125
Interest	**-**	-	**17**	16	**24**	26	**2**	2	**1**	3	**44**	47
Amortization	**-**	-	**26**	24	**25**	25	**2**	2	**-**	-	**53**	51
Payments to municipalities	**-**	-	**20**	21	**3**	7	**-**	-	**-**	-	**23**	28
Saskatchewan taxes	**-**	-	**3**	4	**3**	2	**1**	1	**-**	-	**7**	7
	395	366	**624**	717	**217**	182	**37**	18	**(72)**	(61)	**1,201**	1,222
Net earnings (loss)	**(9)**	8	**14**	12	**22**	21	**28**	39	**(2)**	(3)	**53**	77

19. Segmented Information (continued)

Statement of Financial Position

($ millions)	Distribution		Transportation		Other [1]		Intercompany [2]		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Assets										
Current assets	**257**	344	**27**	24	**19**	9	**(15)**	(13)	**288**	364
Property, plant and equipment, & natural gas in storage	**408**	406	**525**	522	**61**	48	**7**	(1)	**1,001**	975
Investments & other assets	**3**	4	**1**	2	**38**	27	**(9)**	(1)	**33**	32
	668	754	**553**	548	**118**	84	**(17)**	(15)	**1,322**	1,371
Liabilities and Equity										
Current liabilities	**261**	314	**74**	100	**46**	22	**(61)**	(41)	**320**	395
Long-term debt	**227**	245	**301**	277	**28**	21	**34**	39	**590**	582
	488	559	**375**	377	**74**	43	**(27)**	(2)	**910**	977
Equity	**180**	195	**178**	171	**44**	41	**10**	(13)	**412**	394
	668	754	**553**	548	**118**	84	**(17)**	(15)	**1,322**	1,371

[1] The Other category includes Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation and SaskEnergy Nova Scotia Holdings Ltd.

[2] The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were made to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

20. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Distribution Division of SaskEnergy Incorporated as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	**2005**
Assets		
Current assets		
Accounts receivable (Note 4)	$ **157,050**	$ 197,459
Natural gas in storage held for resale	**85,858**	134,661
Intercompany accounts receivable	**8,157**	5,582
Inventories of supplies	**5,747**	6,266
	256,812	343,968
Property, plant and equipment (Note 6)	**408,345**	405,551
Deferred charges (Note 7)	**3,100**	3,948
	$ **668,257**	$ 753,467
Liabilities and Holdings Division's Equity		
Current liabilities		
Bank indebtedness	$ **63,804**	$ 74,228
Accounts payable (Note 8)	**146,334**	188,618
Dividend payable	**3,500**	-
Intercompany accounts payable	**7,548**	8,938
Current portion of notes payable (Note 9)	**39,643**	42,043
	260,829	313,827
Notes payable to Holdings Division (Note 9)	**227,499**	245,071
	488,328	558,898
Holdings Division's equity		
Equity advances (Note 10)	**166,950**	183,450
Retained earnings	**12,979**	11,119
	179,929	194,569
	$ **668,257**	$ 753,467

Commitments (Note 11)

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Commodity sales	$ **386,039**	$ 374,525
Gas marketing sales	**459,587**	545,366
Delivery	**155,314**	159,847
Revenue collected for municipalities (Note 12)	**20,542**	20,737
Other	**2,283**	2,679
	1,023,765	1,103,154
Expenses		
Commodity cost of gas sold	**415,393**	419,628
Saskatchewan Energy Share (Note 3)	**(20,530)**	(53,620)
Net commodity cost of gas sold	**394,863**	366,008
Gas marketing cost of gas sold	**448,930**	539,178
Operating and maintenance	**71,976**	74,092
Transportation and storage	**36,377**	38,651
Amortization (Note 6)	**25,261**	24,350
Interest (Note 9)	**17,126**	16,255
Payments to municipalities (Note 12)	**20,542**	20,737
Saskatchewan taxes (Note 13)	**3,330**	3,595
	1,018,405	1,082,866
Net earnings	**5,360**	20,288
Retained earnings (deficit), beginning of year	**11,119**	(9,169)
Dividends	**(3,500)**	-
Retained earnings, end of year	$ **12,979**	$ 11,119

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ **5,360**	$ 20,288
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 6)	**25,261**	24,350
Amortization of deferred charges	**848**	1,674
Sinking fund earnings (Note 9)	**(789)**	(989)
	30,680	45,323
Net change in non-cash working capital related to operations (Note 14)	**43,482**	(11,422)
Cash provided by operating activities	**74,162**	33,901
Investing Activities		
Net additions to property, plant and equipment	**(32,656)**	(26,190)
Capital contributions received (Note 6)	**4,601**	4,010
Cash used in investing activities	**(28,055)**	(22,180)
Financing Activities		
Decrease in equity advances from Holdings Division (Note 10)	**(16,500)**	(44,960)
Decrease in bank indebtedness	**(10,424)**	(3,889)
Issue of notes payable to Holdings Division	**-**	50,000
Repayment of notes payable to Holdings Division	**(17,043)**	(10,732)
Sinking fund instalments	**(2,140)**	(2,140)
Cash used in financing activities	**(46,107)**	(11,721)
Increase in cash during the year	**-**	-
Cash position, beginning of year	**-**	-
Cash position, end of year	$ **-**	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division, the Corporation or SaskEnergy. The other division is referred to as the Holdings Division.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 5. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

2. Summary of Significant Accounting Policies (continued)

c. Property, plant and equipment (continued)

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.0	Leasehold improvements	Lease term
- Mains (urban)	2.5	Computers	
- Services (urban)	3.3	- Hardware	20.0 to 33.3
- Meters	3.5	- Software	10.0 to 20.0
- Mains and services (rural)	2.5	Vehicles, tools and equipment	8.0 to 11.1
		Furniture and fixtures	4.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Revenue recognition

Delivery and commodity sales revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

e Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, risk management derivative financial instrument settlements, mark to market adjustments on outstanding risk management derivative financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

2. Summary of Significant Accounting Policies (continued)

f. Gas marketing sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

g. Derivative financial instruments

The Corporation uses various derivative financial instruments to manage the risk associated with its operating exposures to fluctuations in foreign currency exchange rates and natural gas costs. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

The Corporation can designate a derivative financial instrument as a hedge for accounting purposes when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative financial instruments. If correlation ceases or the Corporation terminates its designation of the derivative financial instrument as a hedge for accounting purposes, future changes in the market value of the derivative financial instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may manage the risk associated with the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative financial instruments may be used for price risk management to fix the settlement amount. The types of derivative financial instruments SaskEnergy uses for price risk management include natural gas price swaps, options, swaptions and futures contracts. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings as cost of gas sold.

2. Summary of Significant Accounting Policies (continued)

g. Derivative financial instruments (continued)

ii. Foreign currency exchange risk management

The Corporation uses derivative financial instruments to manage the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings.

h. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current service. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

i. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

j. Saskatchewan Energy Share

The Corporation was authorized to receive an appropriation from the Government of Saskatchewan under Saskatchewan Energy Share. The amounts eligible to have been received from the appropriation were recorded in the month in which the natural gas was sold.

3. Saskatchewan Energy Share

On November 29, 2005, the Government of Saskatchewan approved an appropriation of $123,940 thousand (titled – "SaskEnergy Incorporated Vote 77") to establish Saskatchewan Energy Share. Saskatchewan Energy Share is intended to reduce the cost of natural gas sold by SaskEnergy to its rate-regulated customers. The appropriation related to the period November 1, 2005 to March 31, 2006 as it was designed to assist natural gas consumers in dealing with high natural gas prices during the winter of 2005/2006.

The financial impact of Saskatchewan Energy Share is as follows:

a. Through Saskatchewan Energy Share, the Government of Saskatchewan appropriated up to $92,040 thousand which was eligible to be used by SaskEnergy to cap the cost of natural gas sold at $7.95 per Gigajoule. The appropriation related to natural gas sold to customers during the period November 1, 2005 to March 31, 2006. For each month during this period, SaskEnergy calculated its actual cost per Gigajoule of natural gas and compared this amount to the cap of $7.95 per Gigajoule. When SaskEnergy's actual cost of gas was above the cap of $7.95 per Gigajoule, the General Revenue Fund paid SaskEnergy an amount required to reduce the cost of gas down to the cap of $7.95 per Gigajoule. Accordingly, for the months of January, February and March of 2006, SaskEnergy received $20,530 thousand (2005 - $21,917 thousand) from the General Revenue Fund which has been included in the cost of gas.

b. During 2002 and 2003 SaskEnergy sold natural gas to customers below its cost. A portion of these under-recovered costs were received from customers between June, 2003 and October 31, 2005. As at October 31, 2005, SaskEnergy had not yet recovered $31,703 thousand of this past under-recovery. In order to alleviate customers from having to pay SaskEnergy for these past costs, $31,703 thousand was paid to SaskEnergy in 2005 by the General Revenue Fund. As a result SaskEnergy has been fully reimbursed for these past costs.

c. Certain natural gas consumers in Lloydminster, Saskatchewan receive their natural gas service from Direct Energy Regulated Services (a supplier based in Alberta). Under the Saskatchewan Energy Share, $1,000 thousand was allocated to provide eligible Lloydminster customers with a one time credit of $200. A total credit of $550 thousand was provided to these customers in 2006. SaskEnergy reimbursed Direct Energy Regulated Services for the total amount of the credit and then in turn recovered this amount from the General Revenue Fund.

4. Accounts Receivable

	2006	2005
	(thousands)	
Unbilled revenue	**$ 113,178**	$ 136,023
Trade accounts	**41,485**	42,675
Other accounts	**2,387**	18,761
	$ 157,050	$ 197,459

5. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of SaskEnergy is as follows:

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity sales and delivery revenue are as described in note 2d.

Commodity cost of gas sold is accounted for in accordance with the policy described in note 2e.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity sales revenue and commodity cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the differences reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity sales revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies disclosed in note 2d. The differences accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

6. Property, Plant and Equipment

	2006			2005		
	(thousands)					
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Mains and services	**$ 542,245**	**$ 174,645**	**$ 367,600**	$ 523,926	$ 159,813	$ 364,113
Regulator stations	**62,213**	**19,874**	**42,339**	59,912	17,420	42,492
Metering	**37,340**	**15,468**	**21,872**	36,023	14,154	21,869
Computer systems	**28,999**	**17,317**	**11,682**	36,354	24,431	11,923
Vehicles, equipment	**35,978**	**20,137**	**15,841**	34,825	18,931	15,894
Tools, buildings and furniture	**35,117**	**12,019**	**23,098**	31,403	10,342	21,061
	$ 741,892	**$ 259,460**	**482,432**	$ 722,443	$ 245,091	477,352
Less:						
Unamortized customer capital contributions			**74,087**			71.801
			$ 408,345			$ 405,551

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2006	**2005**
	(thousands)	
Balance, beginning of year	**$ 71,801**	$ 69,997
Contributions received	**4,601**	4,010
Amortization of contributions	**(2,315)**	(2,206)
Balance, end of year	**$ 74,087**	$ 71,801

6. Property, Plant and Equipment (continued)

b. Amortization

	2006	2005
	(thousands)	
Amortization of property, plant and equipment	**$ 27,576**	$ 26,556
Amortization of customer capital contributions	**(2,315)**	(2,206)
	$ 25,261	$ 24,350

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.8 per cent during 2006 (3.8 per cent during 2005).

Included in distribution assets is an amount net of amortization of $2,989 thousand (2005 - $2,806 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2006 was $103 thousand (2005 - $98 thousand).

7. Deferred Charges

Deferred charges include the following:

	2006	2005
	(thousands)	
Unamortized deferred financing charges	**$ 3,100**	$ 3,233
Unamortized past service costs	**-**	715
	$ 3,100	$ 3,948

8. Accounts Payable

	2006	2005
	(thousands)	
Supplier payables	**$ 109,095**	$ 156,448
Other payables	**37,239**	32,170
	$ 146,334	$ 188,618

9. Notes Payable to Holdings Division

Years to Maturity	2006 Principal Outstanding (thousands)	2006 Average Fixed Interest Rate (per cent)	2005 Principal Outstanding (thousands)	2005 Average Fixed Interest Rate (per cent)
1 - 5	**$ 98,825**	**7.53**	$ 140,868	7.35
6 - 10	**50,000**	**4.75**	50,000	4.75
11 - 30	**133,970**	**6.66**	108,971	6.60
	282,795		299,839	
Less sinking fund equity	**(15,653)**		(12,725)	
	267,142		287,114	
Less due within one year	**(39,643)**		(42,043)	
	$ 227,499		$ 245,071	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.67 per cent for 2006 (10.7 per cent for 2005).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2007	2008	2009	2010	2011
Principal	$ 37,254	$ 45,537	$ 16,034	$ -	$ -
Sinking fund instalments	2,389	2,090	1,840	1,840	1,840
	$ 39,643	$ 47,627	$ 17,874	$ 1,840	$ 1,840

9. Notes Payable to Holdings Division (continued)

d. Interest expense

Interest expense was as follows:

	2006	**2005**
	(thousands)	
Interest on notes payable to Holdings Division	**$ 18,854**	$ 19,885
Interest on bank indebtedness	**2,060**	(78)
Amortization of deferred financing charges	**133**	127
Interest capitalized	**(110)**	(67)
Sinking fund earnings	**(789)**	(989)
Interest allocation to cost of gas sold	**(3,022)**	(2,623)
	$ 17,126	$ 16,255

Cash interest paid during 2006 on notes payable to Holdings Division was $19,230 thousand (2005 - $20,197 thousand).

10. Equity Advances

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to provide its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

The Distribution Division refunded equity of $16,500 thousand in 2006 (2005 - $44,960 thousand) to Holdings Division.

11. Financial Instruments and Commitments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2006		**2005**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
		(thousands)		
Notes payable to Holdings Division	**$ 282,795**	**$ 314,673**	$ 299,839	$ 337,610
Sinking fund equity	**15,653**	**16,255**	12,725	13,477
Natural gas derivatives owed to (by) SaskEnergy				
- swaps	**-**	**(2,644)**	(2,329)	5,935
- options	**(13,302)**	**(13,302)**	1,896	(4,090)

The fair values of the above instruments were based on the following:

i. Notes payable to Holdings Division – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity – The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps – The relevant index price in effect as at year end. Swap contracts have been entered into for the period January, 2007 to October, 2007.

iv. Natural gas price options – The relevant index price in effect as at year end. Option contracts have been entered into for the period January, 2007 to October, 2007.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, dividend payable, and intercompany accounts payable) approximate fair value due to their relatively short term nature.

b. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

11. Financial Instruments and Commitments (continued)

c. Letter of credit

The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

12. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings.

13. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2006	2005
	(thousands)	
Corporate capital tax	**$ 3,144**	$ 3,406
Property tax	**186**	189
	$ 3,330	$ 3,595

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

14. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2006 (thousands)	2005 (thousands)
Accounts receivable	**$ 40,409**	$ (34,522)
Natural gas in storage held for resale	**48,803**	(40,393)
Intercompany accounts receivable	**(2,575)**	(214)
Inventories of supplies	**519**	(526)
Accounts payable	**(42,284)**	64,013
Intercompany accounts payable	**(1,390)**	220
	$ 43,482	$ (11,422)

15. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Related party transactions with the Holdings Division and the Corporation's subsidiary corporations were as follows:

	2006 (thousands)	2005 (thousands)
Transportation and storage	**$ 36,118**	$ 38,403
Interest expense	**19,957**	18,580
Delivery revenue	**8,992**	9,340
Other revenue	**2,683**	4,234
Cost of gas sold	**2,154**	2,329
Sale of property, plant and equipment	**38**	-

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

15. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2006	2005
	(thousands)	
Revenue	**$ 26,542**	$ 18,041
Operating expenses	**19,187**	16,051
Accounts receivable	**2,665**	10,771
Customer capital contributions	**658**	674
Accounts payable	**127**	443

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $2,318 thousand (2005 - $2,182 thousand) on behalf of employees for current services.

16. Employees' Future Benefits (continued)

b. Retiring allowance plan

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2006	2005
	(thousands)	
Accrued benefit liability	**$ 10,269**	$ 10,414
Benefits paid during the year	**816**	390
Net expense	**1,385**	3,343

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2006	2005
Discount rate	**4.50 per cent**	4.50 per cent
Inflation rate	**2.50 percent**	2.50 percent
Average remaining employee service life	**11.5 years**	13.0 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

17. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKENERGY INCORPORATED
HOLDINGS DIVISION

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of SaskEnergy Incorporated – Holdings Division as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements have been prepared primarily for tabling in the Legislative Assembly, Province of Saskatchewan. These financial statements are the responsibility of the Holdings Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Holdings Division as at December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting disclosed in note 3 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Legislative Assembly, Province of Saskatchewan. These financial statements are not intended to be and should not be used by anyone other than specified users or for any other purpose.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY INCORPORATED - HOLDINGS DIVISION

Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ 116,746	$ 75,107
Dividends receivable	10,952	23,237
Short-term loans to subidiaries	-	19,471
Intercompany accounts receivable	12,200	12,350
	139,898	130,165
Investments (Note 4)	810,709	827,151
Deferred financing charges	2,371	4,019
	$ 952,978	$ 961,335
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	$ 68,800	$ 80,500
Interest payable	12,107	12,631
Dividend payable	12,200	5,200
Current portion of long-term debt (Note 5)	53,381	71,637
	146,488	169,968
Long-term debt (Note 5)	583,007	574,657
	729,495	744,625
Province of Saskatchewan's equity		
Equity advances (Note 6)	71,531	71,531
Retained earnings	151,952	145,179
	223,483	216,710
	$ 952,978	$ 961,335

(See accompanying notes)

On behalf of the Board:

Director

Heather

Director

SASKENERGY INCORPORATED - HOLDINGS DIVISION

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Dividends	$ 42,668	$ 62,575
Interest	44,857	46,685
	87,525	109,260
Expenses		
Interest (Note 5)	46,252	50,055
	46,252	50,055
Net earnings	41,273	59,205
Retained earnings, beginning of year	145,179	115,274
Dividends	(34,500)	(29,300)
Retained earnings, end of year	$ 151,952	$ 145,179

(See accompanying notes)

SASKENERGY INCORPORATED - HOLDINGS DIVISION

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 41,273	$ 59,205
Add (deduct) items not requiring an outlay of cash		
Amortization of deferred financing costs (Note 5)	720	758
Sinking fund earnings (Note 5)	(1,931)	(3,796)
	40,062	56,167
Net change in non-cash working capital related to operations (Note 7)	11,911	(4,921)
Cash provided by operating activities	51,973	51,246
Investing Activities		
Increase in loans to and equity investments in subsidiaries	(48,479)	(162,164)
Repayments of loans and equity investments by subsidiaries	84,392	154,312
Cash provided by (used in) investing activities	35,913	(7,852)
Financing Activities		
Proceeds from long-term debt	38,662	75,000
Repayments of long-term debt	(41,597)	(101,195)
Decrease (increase) in financing costs	928	(906)
Sinking funds redemptions	-	11,058
Sinking funds instalments	(5,040)	(5,540)
(Decrease) increase in short-term debt	(11,700)	1,600
Dividends paid	(27,500)	(50,600)
Cash used in financing activities	(46,247)	(70,583)
Increase (decrease) in cash during the year	41,639	(27,189)
Cash position, beginning of year	75,107	102,296
Cash position, end of year	$ 116,746	$ 75,107

(See accompanying notes)

SaskEnergy Incorporated - Holdings Division
Notes to the Financial Statements
December 31, 2006

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy Incorporated has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of SaskEnergy Incorporated are included in the consolidated financial statements of CIC, a provincial Crown corporation.

As a provincial Crown corporation, SaskEnergy Incorporated and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of Presentation

There are two separate divisions (business units) within SaskEnergy Incorporated. These financial statements reflect only the results of operations of the division which holds interests in the subsidiaries. This division is referred to as the Holdings Division. The other division is referred to as the Distribution Division. Investments in shares of subsidiaries and equity advances to the Distribution Division are not consolidated but are recorded at cost which is not in accordance with generally accepted accounting principles. The financial statements of the Distribution Division are tabled in the Legislative Assembly.

These non-consolidated financial statements are prepared to facilitate tabling in the Legislative Assembly. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

As these financial statements have not been prepared for general purposes, some users may require consolidated financial information.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except as noted above, applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Equity advances to the Distribution Division

These advances are considered to be long-term equity investments by the Holdings Division and are therefore referred to as equity advances. The equity advances are initially recorded at cost. Earnings distributions from the Distribution Division are recognized in income as dividends when receivable.

3. Summary of Significant Accounting Policies (continued)

b. Investments in wholly owned subsidiaries

Investments in wholly owned subsidiaries are accounted for on the cost method. Dividends from these subsidiaries are recognized as income when receivable.

c. Derivative financial instruments

The Corporation uses various derivative financial instruments to manage the risk associated with its operating exposures to fluctuations in interest rates. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options, and interest rate swaps. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such instruments may be used.

The Corporation can designate a derivative financial instrument as a hedge for accounting purposes when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative financial instruments. If correlation ceases or the Corporation terminates its designation of the derivative financial instrument as a hedge for accounting purposes, future changes in the market value of the derivative financial instruments are recognized as gains or losses in the period of change.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings.

d. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

4. Investments

The Holdings Division has made the following investments in and loans to its subsidiaries and the Distribution Division:

	2006	2005
	(thousands)	
a. Loans receivable *	**$ 598,134**	$ 599,935
b. Equity investments		
Distribution Division	**166,949**	183,450
SaskEnergy International Incorporated	**29,385**	29,385
TransGas Limited	**4,001**	4,001
Bayhurst Gas Limited	**1,061**	1,061
SaskEnergy Nova Scotia Holdings Ltd.	**9,861**	6,152
Swan Valley Gas Corporation	**1,317**	3,166
Saskatchewan First Call Corporation	**1**	1
Many Islands Pipe Lines (Canada) Limited **	**-**	-
	212,575	227,216
Total Investments	**$ 810,709**	$ 827,151

All companies listed in 4(b) above are wholly owned subsidiaries of the Holdings Division.

* The terms and conditions on the loans receivable from TransGas Limited, Many Islands Pipe Lines (Canada) Limited, Swan Valley Gas Corporation and the Distribution Division are structured so that they reflect the same terms and conditions as the Holdings Division's long-term debt. The loans are net of sinking fund instalments received from these entities.

The loan receivable from SaskEnergy Nova Scotia Holdings Ltd. bear a fixed interest rate of 5.25 per cent. The loans mature on December 3, 2012.

** The recorded cost of the Many Islands Pipe Lines (Canada) Limited shares is $101 (2005 - $101).

5. Long-Term Debt

All of the long-term debt is owing to the Province of Saskatchewan's General Revenue Fund.

	2006		**2005**	
Years to Maturity	**Principal Outstanding (thousands)**	**Average Fixed Interest Rate (per cent)**	**Principal Outstanding (thousands)**	**Average Fixed Interest Rate (per cent)**
1 - 5	**$ 241,966**	**7.5**	$ 308,563	7.6
6 - 10	**188,662**	**4.9**	150,000	4.9
11 - 15	**33,971**	**6.7**	33,971	6.7
16 - 35	**210,000**	**6.9**	185,000	7.1
	674,599		677,534	
Less sinking fund equity	**(38,211)**		(31,240)	
	636,388		646,294	
Less due within one year	**(53,381)**		(71,637)	
	$ 583,007		$ 574,657	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.67 per cent for 2006 (10.70 per cent for 2005).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

5. Long-Term Debt (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2007	2008	2009	2010	2011
Principal	$ 47,705	$ 75,126	$ 39,136	$ 80,000	$ -
Sinking fund instalments	5,676	5,376	5,126	5,126	4,326
	$ 53,381	$ 80,502	$ 44,262	$ 85,126	$ 4,326

d. Interest expense

Interest expense was as follows:

	2006	2005
	(thousands)	
Interest on long-term debt	**$ 45,263**	$ 52,104
Interest on short-term debt	**2,200**	989
Amortization of deferred financing charges	**720**	758
Sinking fund earnings	**(1,931)**	(3,796)
	$ 46,252	$ 50,055

Cash interest paid during 2006 on long-term debt was $45,795 thousand (2005 - $52,917 thousand)

6. Equity Advances

The Holdings Division does not have share capital. However, the Holdings Division has received advances from CIC. The advances are considered to be an equity investment in the Holdings Division by CIC.

7. Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2006	2005
	(thousands)	
Accounts receivable	$ -	$ 69
Dividends receivable	12,285	(5,015)
Intercompany accounts receivable	150	624
Interest payable	(524)	(599)
	$ 11,911	$ (4,921)

8. Related Party Transactions

Included in these financial statements are revenue and expense amounts resulting from operating transactions conducted with subsidiary corporations, CIC and the Saskatchewan Department of Finance.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms. Amounts due to and from related parties are described separately in these financial statements and notes.

9. Financial Instruments

a. Fair value of financial instruments

The fair value of the Holding Division's financial instruments is listed below:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term loans receivable	$ 637,648	$ 725,979	$ 634,476	$ 739,032
Sinking fund equity payable	35,857	37,236	29,506	31,250
Long-term debt	674,599	763,252	677,534	782,861
Sinking fund equity receivable	38,211	39,681	31,240	33,087

9. Financial Instruments (continued)

The fair values of these instruments were based on the following:

i. Long-term loans receivable – The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

ii. Long-term debt – The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

iii. Sinking fund equity payable – The fair value of the investments held in the sinking fund on behalf of the Distribution Division and subsidiaries as at year end.

iv. Sinking fund equity receivable – Equivalent to the fair value of the sinking fund receivable from the Province of Saskatchewan as at year end.

The carrying values of other financial instruments (cash, dividends receivable, intercompany accounts receivable, short-term debt, interest payable and dividend payable) approximate fair value due to their relatively short term nature.

b. Credit risk

The Holdings Division has extended credit only to the Distribution Division and the subsidiary corporations listed in Note 4. The Holdings Division expects all amounts due to be paid. There were no credit losses in 2006.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

Deloitte & Touche LLP
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Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

Member of
Deloitte Touche Tohmatsu

TRANSGAS LIMITED

Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ -	$ 110
Accounts receivable (Note 3)	9,766	15,346
Intercompany accounts receivable	2,342	3,445
Natural gas in storage held for resale	13,170	4,032
Inventories of supplies	1,194	986
	26,472	23,919
Property, plant and equipment (Note 4)	496,004	498,098
Natural gas in storage held for operations	29,374	23,982
Deferred charges (Note 5)	711	2,172
	$ 552,561	$ 548,171
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 25,394	$ -
Short term loan payable to parent (Note 6)	-	13,550
Accounts payable (Note 7)	14,283	31,072
Dividend payable	-	14,000
Intercompany accounts payable	17,326	14,991
Current portion of notes payable (Note 8)	12,819	26,132
	69,822	99,745
Asset retirement obligation (Note 9)	3,361	345
Notes payable (Note 8)	301,109	277,386
(Decrease) increase in short-term loan payable to parent	374,292	377,476
Shareholder's equity		
Share capital (Note 10)	4,001	4,001
Retained earnings	174,268	166,694
	178,269	170,695
	$ 552,561	$ 548,171

Commitments (Note 11)

(See accompanying notes)

On behalf of the Board:

Director

Director

TRANSGAS LIMITED

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Transportation and storage	$ 129,734	$ 134,223
Gas marketing sales	106,376	61,594
Revenue collected for municipalities (Note 13)	2,726	6,936
	238,836	202,753
Expenses		
Gas marketing cost of gas sold	104,107	59,079
Operating and maintenance	58,474	61,948
Interest (Note 8)	23,630	26,154
Amortization (Note 4)	25,345	24,809
Payments to municipalities (Note 13)	2,726	6,936
Saskatchewan taxes (Note 14)	2,680	2,437
	216,962	181,363
Net earnings	21,874	21,390
Retained earnings, beginning of year:	166,694	170,454
Dividends	(14,300)	(25,150)
Retained earnings, end of year	$ 174,268	$ 166,694

(Decrease) increase in short-term loan payable to parent

(See accompanying notes)

TRANSGAS LIMITED

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 21,874	$ 21,390
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 4)	25,345	24,809
Amortization of deferred charges	533	1,131
Asset retirement obligation	52	(39)
Sinking fund earnings (Note 8)	(1,020)	(2,673)
	46,784	44,618
Net change in non-cash working capital related to operations (Note 15)	(17,117)	6,568
Cash provided by operating activities	29,667	51,186
Investing Activities		
Net additions to property, plant and equipment	(25,984)	(22,599)
Capital contributions received (Note 4)	5,696	4,847
Increase in natural gas in storage held for operations	(5,392)	(3,748)
Cash used in investing activities	(25,680)	(21,500)
Financing Activities		
Increase (decrease) in bank indebtedness	25,394	(12,196)
Dividends paid	(28,300)	(24,650)
(Decrease) increase in short-term loan payable to parent	(13,550)	13,550
Repayment of short-term loans payable to parent	-	-
Proceeds on issue of notes payable	38,490	75,470
Repayment of notes payable	(23,831)	(90,008)
Sinking fund instalments	(2,300)	(2,800)
Sinking fund redemptions	-	11,058
Cash used in financing activities	(4,097)	(29,576)
(Decrease) increase in cash during the year	(110)	110
Cash position, beginning of year	110	-
Cash position, end of year	$ -	$ 110

(See accompanying notes)

1. Status of the Corporation

TransGas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation operates a natural gas transmission pipeline system within Saskatchewan providing open access transmission services as well as gathering, compression and natural gas processing to end use customers, marketers and producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock used for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage for resale

Natural gas in storage for resale is stated at the lower of cost and net realizable value. Natural gas in storage for resale is located within the Corporation's various underground natural gas storage facilities.

c. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations is located within the Corporation's various underground natural gas storage facilities and is required for the ongoing operation of the storage facilities.

d. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds, received, to accumulated amortization.

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	4.0 to 33.3

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Asset retirement obligation

The Corporation records the costs associated with the future decommissioning of certain natural gas facilities when a reasonable estimate is known. The estimate is recorded as part of the related asset along with a related obligation. Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

f. Revenue recognition

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

g. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, and transportation.

h. Rate regulation

The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. Accordingly, transportation rates are subject to approval by the Provincial Cabinet. The financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles and are not impacted by this rate approval process.

i. Derivative financial instruments

The Corporation uses various derivative financial instruments to manage the risk associated with its operating exposure to fluctuations in the price of natural gas. The price risk management derivative financial instruments are executed by SaskEnergy on behalf of the Corporation. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

2. Summary of Significant Accounting Policies (continued)

i. Derivative financial instruments (continued)

The Corporation can designate a derivative financial instrument as a hedge for accounting purposes when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative financial instruments. If correlation ceases or the Corporation terminates its designation of the derivative financial instrument as a hedge for accounting purposes, future changes in the market value of the derivative financial instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative financial instruments may be used for price risk management to fix the settlement amount. The types of derivative financial instruments used for price risk management include natural gas price swaps, options, and swaptions traded on the over-the-counter market.

ii. Foreign currency exchange risk management

The Corporation uses derivative financial instruments to manage the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing the exchange risk on transactions denominated in foreign currency, the Corporation may use currency forwards and currency options.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in receivable or payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings.

j. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

2. Summary of Significant Accounting Policies (continued)

k. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. Accounts Receivable

	2006	2005
	(thousands)	
Unbilled revenue	**$ 6,459**	$ 10,761
Trade accounts	**2,594**	4,305
Other accounts	**713**	280
	$ 9,766	$ 15,346

4. Property, Plant and Equipment

	2006			2005		
			(thousands)			
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Transmission and storage	**$ 624,186**	**$ 195,877**	**$ 428,309**	$ 594,877	$ 180,099	$ 414,778
Gathering, treatment and compression	**153,215**	**63,480**	**89,735**	134,668	59,475	75,193
Vehicles, equipment and other	**69,166**	**45,873**	**23,293**	66,575	41,108	25,467
Construction in progress	**7,396**	**-**	**7,396**	31,161	-	31,161
	$ 853,963	**$ 305,230**	**548,733**	$ 827,281	$ 280,682	546,599
Less:						
Unamortized customer capital contributions			**52,729**			48,501
			$ 496,004			$ 498,098

4. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2006	2005
	(thousands)	
Balance, beginning of year	**$ 48,501**	$ 44,989
Contributions received	**5,696**	4,847
Amortization of contributions	**(1,468)**	(1,335)
Balance, end of year	**$ 52,729**	$ 48,501

b. Amortization

	2006	2005
	(thousands)	
Amortization of property, plant and equipment	**$ 26,813**	$ 26,144
Amortization of customer capital contributions	**(1,468)**	(1,335)
	$ 25,345	$ 24,809

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.3 per cent during 2006 (3.3 per cent during 2005).

Included in transmission assets is an amount of $2,936 thousand (2005 - $2,806 thousand) received from SaskEnergy for customer capital contributions in aid of construction of certain transmission facilities. Amortization of customer capital contributions related to this amount in 2006 was $104 thousand (2005 - $98 thousand).

5. Deferred Charges

Deferred charges include the following:

	2006	2005
	(thousands)	
Unamortized deferred financing charges	**$ 711**	$ 1,961
Unamortized past service costs	**-**	211
	$ 711	$ 2,172

6. Short -Term Loan Payable To Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

7. Accounts Payable

	2006	2005
	(thousands)	
Supplier payables	$ 7,369	$ 20,041
Other payables	6,914	11,031
	$ 14,283	$ 31,072

8. Notes Payable

	2006		2005	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5	$ 141,283	7.5	$ 165,115	7.8
6 - 10	87,562	4.8	50,000	4.8
16 - 30	100,000	7.8	100,000	7.8
	328,845		315,115	
Less sinking fund equity	(19,732)		(16,412)	
	309,113		298,703	
Less due within one year	(12,819)		(26,132)	
	296,294		272,571	
Other debt	4,815	13.5	4,815	13.5
	$ 301,109		$ 277,386	

8. Notes Payable (continued)

a Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy, TransGas Limited is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance on behalf of the parent.

The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.7 per cent for 2006 (10.7 per cent for 2005).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2007	2008	2009	2010	2011
Principal	$ 10,143	$ 28,718	$ 22,422	$ 80,000	$ -
Sinking fund instalments	2,676	2,676	2,676	2,676	1,876
	$ 12,819	$ 31,394	$ 25,098	$ 82,676	$ 1,876

d. Interest expense

Interest expense was as follows:

	2006	2005
	(thousands)	
Interest on notes payable to parent	**$ 22,914**	$ 28,681
Short-term interest expense	**961**	-
Interest on other debt	**650**	650
Amortization of deferred financing charges	**322**	432
Interest income on short term investments	**-**	(400)
Interest capitalized	**(197)**	(536)
Sinking fund earnings	**(1,020)**	(2,673)
	$ 23,630	$ 26,154

Cash interest paid during the year on notes payable to parent was $23,039 thousand (2005 - $29,162 thousand).

9. Asset Retirement Obligation

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. These facilities will be decommissioned over the period of 2007 to 2016. The estimated future cash flows required to settle this obligation of $4,371 thousand (2005 - $463 thousand) are discounted to $3,361 thousand (2005 - $345 thousand) using credit adjusted risk free rates ranging from 3.2 to 6.4 per cent.

During the year, the Corporation recognized expenses of $93 thousand (2005 - $29 thousand) and a settlement of $41 thousand (2005 - $68 thousand) related to this asset retirement obligation.

10. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2005 - thirty) are issued and outstanding.

11. Financial Instruments and Commitments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2006		**2005**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
		(thousands)		
Notes payable	**$ 333,660**	**$ 392,600**	$ 319,931	$ 388,703
Sinking fund equity	**19,732**	**20,491**	16,412	17,383
Natural gas price hedges owed to TransGas - swaps	**-**	**3,639**	-	7,603

The fair values of the above instruments were based on the following:

i. Notes payable – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity – The market value of the investments held in the sinking fund as at year end.

iii. Natural gas price swaps – The relevant index price in effect as at year end. Swap contracts have been entered into for the period April, 2007 to October, 2009.

The carrying values of other financial instruments (receivable, intercompany receivable, bank indebtedness, short-term loan payable to parent, payable, dividend payable, and intercompany payable) approximate fair value due to their relatively short term nature.

11. Financial Instruments and Commitments (continued)

b. Credit risk management

The Corporation provides credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. Excluding related parties (see Note 16), the Corporation has approximately 124 customers. There were no credit losses in 2006 (2005 - no credit losses).

c. The Corporation has entered into forward agreements to purchase 4.7 Petajoules and sell 3.0 Petajoules of natural gas during 2007.

d. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 0.4 Petajoules in 2009 and the sale price for a total of 1.5 Petajoules in 2007.

e. The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

2007	2008	2009	2010	2011	Total
$ 204	$ 210	$ 215	$ 220	$ 111	$ 960

12. Rate Regulation

By virtue of legislation, TransGas Limited has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2f. The Corporation's transportation revenue was $100,373 thousand for 2006 (2005 - $105,067 thousand).

13. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of earnings and retained earnings.

14. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2006	2005
	(thousands)	
Corporate capital tax	**$ 2,136**	$ 1,916
Mitigation payments and property taxes	**544**	521
	$ 2,680	$ 2,437

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

15. Net Change in Non-Cash Working Capital

	2006	2005
	(thousands)	
Accounts receivable	**$ 5,580**	$ (6,100)
Intercompany accounts receivable	**1,103**	(523)
Natural gas in storage held for resale	**(9,138)**	(3,386)
Inventories of supplies	**(16,789)**	(103)
Accounts payable	**2,335**	13,938
Intercompany accounts payable	**(208)**	2,742
	$ (17,117)	$ 6,568

16. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2006	**2005**
	(thousands)	
Transportation and storage revenue	**$ 44,016**	$ 47,833
Operating and maintenance expenses	**14,524**	15,112
Interest expense	**23,177**	26,635
Purchase of property, plant and equipment	**38**	-

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany receivable and intercompany payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2006	**2005**
	(thousands)	
Accounts receivable	**$ 146**	$ 707
Accounts payable	**48**	101
Revenue	**21,220**	20,880
Operating expenses	**7,183**	7,737
Customer capital contributions	**3,924**	3,711

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

17. Employees' Future Benefits

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $760 thousand (2005 - $722 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

Accrued benefit liability	**$ 3,629**	$ 3,482
Benefits paid during the year	**161**	166
Net expense	**520**	1,179

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2006	2005
Discount rate	**4.50 per cent**	4.50 per cent
Inflation rate	**2.50 percent**	2.50 per cent
Average remaining employee service life	**11.1 years**	13.6 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

18. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
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Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Financial Position

As at December 31

(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ -	$ 45
Accounts receivable	186	138
Intercompany accounts receivable	155	673
	341	856
Property, plant and equipment (Note 3)	16,365	16,934
	$ 16,706	$ 17,790
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 275	$ -
Short-term loan payable to parent (Note 4)	-	1,316
Accounts payable	172	89
Dividends payable	730	-
Intercompany accounts payable	258	280
Current portion of notes payable (Note 5)	387	803
	1,822	2,488
Notes payable to parent (Note 5)	9,200	9,618
	11,022	12,106
Shareholder's equity		
Share capital (Note 6)	-	-
Retained earnings	5,684	5,684
	5,684	5,684
	$ 16,706	$ 17,790

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

MANY ISLANDS PIPE LINES (CANADA) LIMITED
Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Transportation	$ 4,109	$ 3,865
Expenses		
Operating and maintenance	1,080	1,231
Interest (Note 5)	706	778
Amortization	645	642
Saskatchewan taxes (Note 7)	948	889
	3,379	3,540
Net earnings	730	325
Retained earnings, beginning of year	5,684	5,359
Dividends	(730)	-
Retained earnings, end of year	$ 5,684	$ 5,684

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 730	$ 325
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment	645	642
Amortization of premium on notes payable	(8)	(8)
Sinking fund earnings	(23)	(26)
	1,344	933
Net change in non-cash working capital related to operations (Note 8)	531	(554)
Cash provided by operating activities	1,875	379
Investing Activities		
Additions to property, plant and equipment	(76)	(87)
Cash used in investing activities	(76)	(87)
Financing Activities		
Increase (decrease) in bank indebtedness	275	(1,028)
(Decrease) increase in short-term loan payable to parent	(1,316)	1,316
Repayment of notes payable to parent	(803)	(535)
Cash used in financing activities	(1,844)	(247)
(Decrease) increase in cash during the year	(45)	45
Cash position, beginning of year	45	-
Cash position, end of year	$ -	$ 45

(See accompanying notes)

1. Status of the Corporation

Many Islands Pipe Lines (Canada) Limited was incorporated on July 2, 1972 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation owns and/or operates fourteen natural gas transmission pipelines: eleven interconnects between Alberta and Saskatchewan, two interconnects between the United States and Saskatchewan, and one interconnect between Saskatchewan and Manitoba. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders. The Corporation is regulated by the National Energy Board.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset as follows: (in per cent)

Distribution	
- Transmission	2.6
- Compression	3.5
- Treatment	2.5
Other	2.5 - 15.0

b. Revenue recognition

Revenue is recognized when transportation services are provided to customers. An estimate of transportation services rendered, but not billed, is included in revenue.

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2006

3. Property, Plant and Equipment

	2006			2005		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission	$ 23,993	$ 8,029	$ 15,964	$ 23,984	$ 7,414	$ 16,570
Compression	775	502	273	775	474	301
Treatment	14	6	8	14	6	8
Other	521	468	53	521	466	55
Construction in Progress	67	-	67	-	-	-
	$ 25,370	$ 9,005	$ 16,365	$ 25,294	$ 8,360	$ 16,934

The composite rate of amortization was 2.6 per cent during 2006 (2.6 per cent during 2005).

a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL was $9,182 thousand and accumulated amortization of $6,879 thousand had been recorded as of April 1, 1988.

b. Pursuant to a National Energy Board (NEB) order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy Incorporated. Pursuant to a NEB order also dated April 11, 1991, SaskEnergy acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of this pipeline to SPC was $264 thousand and accumulated amortization of $151 thousand had been recorded as of April 11, 1991.

c. On December 9, 1993, the Corporation purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited was $2,895 thousand and accumulated amortization of $62 thousand had been recorded as of December 9, 1993.

4. Short-Term Loan Payable to Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $2,500 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

5. Notes Payable to Parent

Years to Maturity	2006 Principal Outstanding (thousands)	2006 Average Fixed Interest Rate (per cent)	2005 Principal Outstanding (thousands)	2005 Average Fixed Interest Rate (per cent)
1 - 5	$ 1,858	9.3	$ 2,581	9.4
16 - 30	8,201	6.4	8,209	6.4
	10,059		10,790	
Less sinking fund equity	(472)		(369)	
	9,587		10,421	
Less due within one year	(387)		(803)	
	$ 9,200		$ 9,618	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy, the Corporation is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by Saskatchewan's Department of Finance on behalf of the parent.

The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 5.67 per cent for 2006 (10.7 per cent for 2005).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2007	2008	2009	2010	2011
Principal	$ 307	$ 871	$ 680	$ -	$ -
Sinking fund instalments	80	80	80	80	80
	$ 387	$ 951	$ 760	$ 80	$ 80

5. Notes Payable to Parent (continued)

d. Interest expense

Interest expense was as follows:

	2006	2005
	(thousands)	
Interest on notes payable to parent	$ 717	$ 785
Interest on short-term borrowings	18	10
Interest on bank indebtedness	-	15
Sinking fund earnings	(23)	(26)
Amortization of premium	(6)	(6)
	$ 706	$ 778

e. Cash interest paid during the year on notes payable to parent was $737 thousand (2005 - $805 thousand).

6. Share Capital

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2005 - 101) are issued and outstanding. The shares were issued for nominal consideration of $101.

7. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2006	2005
	(thousands)	
Property taxes	$ 932	$ 868
Corporate capital tax	16	21
	$ 948	$ 889

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

8. Net Change in Non-Cash Working Capital

	2006	2005
	(thousands)	
Accounts receivable	$ (48)	$ 46
Intercompany accounts receivable	518	(673)
Accounts payable	83	(52)
Intercompany accounts payable	(22)	125
	$ 531	$ (554)

9. Financial Instruments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable to parent	$ 9,858	$ 12,124	$ 10,581	$ 13,136
Sinking fund equity	472	490	369	391

The fair values of the above instruments were based on the following:

i. Notes payable to parent – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Sinking fund equity – The market value of the investments held in the sinking fund as at year end.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, short-term loan payable to parent, accounts payable, dividends payable, and intercompany accounts payable) approximate fair value due to their relatively short term nature.

b. Credit risk management

The Corporation provides credit to its customers in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers. Excluding related parties (see Note 10), during 2006, the Corporation had nine customers (2005 - ten) from which it earned approximately 41 per cent of its revenue (2005 - 34 per cent).

10. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2006	2005
	(thousands)	
Revenue	**$ 2,435**	$ 2,538
Operating and maintenance expenses	**811**	1,006
Interest expense	**706**	753

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions include operating expenses of $29 thousand (2005 - $27 thousand).

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

11. Rate regulation

The business activities of the Corporation are regulated by the National Energy Board.

Revenue recognition policies for the Corporation's transportation revenue are as described in Note 2b. The Corporation's transportation revenue for 2006 was $4,109 thousand (2005 - $3,865 thousand).

BAYHURST GAS LIMITED

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Canada

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Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the statement of financial position of Bayhurst Gas Limited as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

BAYHURST GAS LIMITED
Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Accounts receivable	$ 1,549	$ 1,484
Intercompany accounts receivable	2,658	2,790
Natural gas in storage held for resale (Note 2)	12,188	853
	16,395	5,127
Natural gas in storage held for resale	16,653	4,036
Property, plant and equipment (Note 3)	7,313	8,178
	$ 40,361	$ 17,341
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 28,729	$ 276
Accounts payable	1,020	518
Intercompany accounts payable	210	156
Short term-loan payable to parent (Note 4)	-	3,595
Dividend payable	6,722	9,237
	36,681	13,782
Asset retirement obligation (Note 5)	2,619	2,498
	39,300	16,280
Shareholder's equity		
Share capital (Note 6)	1,061	1,061
Retained earnings	-	-
	1,061	1,061
	$ 40,361	$ 17,341

Commitments (Note 7)

(See accompanying notes)

On behalf of the Board:

Director

Director

BAYHURST GAS LIMITED
Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Gas marketing sales	$ 46,424	$ 40,352
Royalties	5,388	6,226
Service fee	9	312
	51,821	46,890
Expenses		
Gas marketing cost of gas sold	23,664	6,361
Operating and maintenance	2,407	1,906
Amortization (Note 3)	1,146	1,127
Interest (Note 8)	338	64
Saskatchewan taxes	128	7
	27,683	9,465
Net earnings	24,138	37,425
Retained earnings, beginning of year	-	-
Dividends	(24,138)	(37,425)
Ret Short term-loan payable to parent (Note 4)	$ -	$ -

(See accompanying notes)

BAYHURST GAS LIMITED
Statement of Cash Flows
Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ **24,138**	$ 37,425
Add items not requiring an outlay of cash		
Amortization of propery, plant and equipment (Note 3)	**1,146**	1,127
Asset retirement obligation	**121**	116
	25,405	38,668
Net change in non-cash working capital related to operations (Note 9)	**(23,329)**	(1,809)
Cash provided by operating activities	**2,076**	36,859
Investing Activities		
Additions to property, plant and equipment	**(281)**	(398)
Decrease in customer capital contributions	**-**	(17)
Cash used in investing activities	**(281)**	(415)
Financing Activities		
Short term-loan payable to parent (Note 4)	**28,453**	(7,129)
Dividends paid	**(26,653)**	(32,910)
(Decrease) increase in short-term loan payable to parent	**(3,595)**	3,595
Cash used in financing activities	**(1,795)**	(36,444)
Increase (decrease) in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Corporation

Bayhurst Gas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at the lower of cost and net realizable value. The estimated amount to be sold in 2007 is classified as a current asset, with the remainder classified as non-current.

b. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	20 to 50
Compression	3.5 to 50

c. Asset retirement obligation

The Corporation records the costs associated with the future decommissioning of certain natural gas facilities when a reasonable estimate is known. The estimate is recorded as part of the related asset along with a related obligation. Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

2. Summary of Significant Accounting Policies (continued)

d. Revenue recognition

For natural gas sales, revenue is recognized in the financial statements upon completion of the delivery of natural gas to the customer.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

The Corporation charges a service fee for natural gas loaned to an affiliate. The service fee revenue is recognized when the natural gas is made available to the affiliate.

e. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, and transportation.

f. Derivative financial instruments

The Corporation uses various derivative financial instruments to manage the risk associated with its exposure to fluctuations in the price of natural gas. The price risk management derivative financial instruments are executed by SaskEnergy on behalf of the Corporation. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines by which such derivative financial instruments may be used.

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative financial instruments may be used for price risk management to fix the settlement amount. The types of derivative financial instruments used for price risk management include natural gas price swaps, options, and swaptions.

The Corporation can designate a derivative financial instrument as a hedge for accounting purposes when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative financial instruments. If correlation ceases or the Corporation terminates its designation of the derivative financial instrument as a hedge for accounting purposes, future changes in the market value of the derivative financial instruments are recognized as gains or losses in the period of change.

Derivative financial instruments that do not qualify as a hedge for accounting purposes and derivative financial instruments not designated as a hedge for accounting purposes are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings.

3. Property, Plant and Equipment

	2006			**2005**		
	(thousands)					
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Compression	**$ 5,839**	**$ 1,749**	**$ 4,090**	$ 5,799	$ 1,356	$ 4,443
Storage	**4,029**	**2,152**	**1,877**	4,028	1,691	2,337
Transmission	**2,581**	**1,192**	**1,389**	2,185	899	1,286
Construction in progress	**-**	**-**	**-**	156	-	156
	$ 12,449	**$ 5,093**	**7,356**	$ 12,168	$ 3,946	8,222
Less:						
Unamortized customer capital contributions			**43**			44
			$ 7,313			$ 8,178

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2006	**2005**
	(thousands)	
Balance, beginning of year	**$ 44**	$ 62
Amortization of contributions	**(1)**	(1)
Contributions refunded	**-**	(17)
Balance, end of year	**$ 43**	$ 44

3. Property, Plant and Equipment (continued)

b. Amortization

	2006	2005
	(thousands)	
Amortization of property, plant and equipment	**$ 1,147**	$ 1,128
Amortization of customer capital contributions	**(1)**	(1)
	$ 1,146	$ 1,127

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 9.3 per cent during 2006 (9.4 per cent during 2005).

4. Short-Term Loan Payable to Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $20,000 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

5. Asset Retirement Obligation

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. These facilities will be decommissioned by 2010. As of December 31, 2006 the estimated future cash flow required to settle this obligation of $3,163 thousand was discounted to $2,619 thousand (2005 - $2,498 thousand) using a credit adjusted risk free rate of 4.84 per cent.

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2005 - 120 shares) are issued and outstanding.

7. Financial Instruments

a. Fair value of financial instruments

The Corporation holds natural gas in storage available for sale in 2007 and future years. As at December 31, 2006:

i. The Corporation has entered into forward sales agreements to sell 0.8 Petajoules of natural gas during 2007.

ii. The Corporation has entered into natural gas price swaps, to fix the selling price for 2.7 Petajoules of the natural gas available for sale during 2007 and 1.6 Petajoules of the natural gas committed for sale during 2008 through 2011.

The fair value of the natural gas price swaps is $4,129 thousand owing by the Corporation (2005 - $11,176 thousand) as at December 31, 2006. The fair values of the natural gas price swaps were based on the relevant index price in effect as at year end. Swap contracts have been entered into for sale during 2007, 2008 and 2011.

iii. The Corporation has entered into natural gas price options contracts to manage the risk associated with the purchase of 0.4 Petajoules and the sale of 0.9 Petajoules of natural gas during 2007.

The fair value of the natural gas price options is equal to the carrying value of $129 thousand owing by the Corporation as at December 31, 2006. The fair values of the natural gas price options were based on the relevant index price in effect as at year end. Option contracts have been entered into for the period of April, 2007 to October, 2007.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, intercompany accounts payable, and dividend payable) approximate fair value due to their relatively short term nature.

b. Credit risk management

The Corporation receives monthly royalty revenue from certain natural gas properties located in Saskatchewan and Alberta. During 2006, the Corporation had one non-related company from which it received approximately 60 per cent of its royalty revenue (2005 - 70 per cent). The Corporation expects all future royalty payments to be received in accordance with the terms and conditions of the royalty agreements. There were no credit losses in 2006.

8. Interest Expense

Interest expense was as follows:

	2006	2005
	(thousands)	
Interest on bank indebtedness	$ 352	$ 122
Interest on bank balances	(14)	(58)
	$ 338	$ 64

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of $371 thousand (2005 - $41 thousand).

9. Net Change in Non-Cash Working Capital

	2006	2005
	(thousands)	
Accounts receivable	$ (65)	$ (595)
Intercompany accounts receivable	132	(2,415)
Natural gas in storage held for resale	(23,952)	1,295
Accounts payable	502	32
Intercompany accounts payable	54	(126)
	$ (23,329)	$ (1,809)

10. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

Revenue from natural gas sales	**$ 16,786**	$ 2,318
Service fee	-	307
Cost of gas sold	**2,026**	1,883
Operating and maintenance expenses	**1,871**	1,806
Interest expense	**338**	64

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2006	**2005**
	(thousands)	
Accounts payable	**$ 334**	$ 278
Saskatchewan taxes	**128**	-
Royalties expense	**1,425**	3,295

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

11. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SWAN VALLEY GAS CORPORATION

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Canada

Tel: (306) 565-5200
Fax: (306) 757-4753
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Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2006 and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SWAN VALLEY GAS CORPORATION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ -	$ 27
Short-term loan receivable from parent	-	295
Intercompany accounts receivable	113	118
Accounts receivable	230	322
	343	762
Property, plant and equipment (Note 3)	1,713	1,775
	$ 2,056	$ 2,537
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 20	$ -
Accounts payable	74	60
Intercompany accounts payable	103	179
Current portion of note payable to parent (Note 5)	11	-
	208	239
Note payable to parent (Note 5)	1,089	-
	1,297	239
Shareholder's equity		
Share capital (Note 6)	1,317	3,167
Deficit	(558)	(869)
	759	2,298
	$ 2,056	$ 2,537

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

SWAN VALLEY GAS CORPORATION

Statement of Earnings and Deficit

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Commodity sales	$ 761	$ 691
Delivery	865	613
Other	19	20
	1,645	1,324
Expenses		
Commodity cost of gas sold	639	722
Transportation	387	323
Operating and maintenance	238	184
Amortization (Note 3)	70	70
	1,334	1,299
Net earnings	311	25
Deficit, beginning of year	(869)	(894)
Deficit, end of year	$ (558)	$ (869)

(See accompanying notes)

SWAN VALLEY GAS CORPORATION

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 311	$ 25
Add items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 3)	70	70
	381	95
Net change in non-cash working capital related to operations (Note 7)	35	(6)
Cash provided by operating activities	416	89
Investing Activities		
Decrease (increase) in short-term loan receivable from parent	295	(295)
Net additions to property, plant and equipment	(9)	8
Capital contributions received (Note 3)	1	1
Cash provided by (used in) investing activities	287	(286)
Financing Activities		
Increase in bank indebtedness	20	-
Increase in note payable to parent	1,100	-
Redemption of common shares (Note 6)	(1,850)	-
Cash used in financing activities	(730)	-
Decrease in cash during the year	(27)	(197)
Cash position, beginning of year	27	224
Cash position, end of year	$ -	$ 27

(See accompanying notes)

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2006

1. Status of the Corporation

Swan Valley Gas Corporation was created on November 30, 1999 under *The Corporations Act of Manitoba*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates natural gas transmission and distribution facilities in the Swan Valley region of Manitoba. The Corporation contracts with SaskEnergy and its affiliated corporations for its natural gas supply, transportation and storage requirements. The Corporation takes delivery of natural gas at the inlet to its facilities approximately one kilometre east of the Manitoba-Saskatchewan border.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

General plant	5.00
Service lines and meters	3.45
Pressure regulation stations	3.03
Main lines	2.50

b. Capital contributions

Capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized to income on a straight-line basis over the estimated service life of the related asset.

2. Summary of Significant Accounting Policies (continued)

c. Revenue recognition

Delivery and commodity sales revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed, is included in revenue.

3. Property, Plant and Equipment

	2006			**2005**		
			(thousands)			
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Main lines	**$ 6,371**	**$ 921**	**$ 5,450**	$ 6,368	$ 762	$ 5,606
Service lines and meters	**1,268**	**233**	**1,035**	1,266	189	1,077
Stations	**687**	**118**	**569**	684	96	588
General plant	**32**	**9**	**23**	31	8	23
	$ 8,358	**$ 1,281**	**7,077**	$ 8,349	$ 1,055	7,294
Less:						
Unamortized capital contributions			**5,364**			5,519
			$ 1,713			$ 1,775

a. Capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2006	**2005**
	(thousands)	
Balance, beginning of year	**$ 5,519**	$ 5,674
Contributions received	**1**	1
Amortization of contributions	**(156)**	(156)
Balance, end of year	**$ 5,364**	$ 5,519

3. Property, Plant and Equipment (continued)

b. Amortization

	2006 (thousands)	2005 (thousands)
Amortization of property, plant and equipment	$ 226	$ 226
Amortization of capital contributions	(156)	(156)
	$ 70	$ 70

The composite rate of amortization on property, plant and equipment (excluding the effect of capital contributions amortization) was 2.7 per cent during 2006 (2.7 per cent during 2005).

4. Short-Term Loan Payable to Parent

The Corporation has a Credit Facility Agreement with its parent company. Under this agreement, the Corporation receives a rate of interest, determined by SaskEnergy, which is equivalent to the average interest rate that SaskEnergy earns on short-term notes invested with the Province of Saskatchewan. SaskEnergy may make repayments at any time without penalty. There were no amounts outstanding on the credit facility as at December 31, 2006.

5. Note Payable To Parent

	2006		2005	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Note payable to parent				
6 - 10	$ 1,100	4.4	$ -	-
Less sinking fund equity	-		-	
	1,100		-	
Less due within one year	(11)		-	
	$ 1,089		$ -	

5. Note Payable To Parent (continued)

a Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SaskEnergy, the Corporation is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are invested with Saskatchewan's Department of Finance by the parent.

The investments to be held in these sinking funds are primarily Province of Saskatchewan debt instruments. There were no amounts outstanding in these sinking funds as at December 31, 2006.

b. Maturity date

The note payable to parent matures in 2016.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	2007	2008	2009	2010	2011
Principal	$ -	$ -	$ -	$ -	$ -
Sinking fund instalments	11	11	11	11	11
	$ 11	$ 11	$ 11	$ 11	$ 11

6. Share Capital

Authorized share capital consists of an unlimited number of common shares without nominal or par value. Issued share capital is as follows:

	Shares	2006	2005
		(thousands)	
Share capital, beginning of year	**316,650**	**$ 3,167**	$ 3,167
Redeemed during the year	**(185,000)**	**(1,850)**	-
Share capital, end of year	**131,650**	**$ 1,317**	$ 3,167

7. Net Change in Non-Cash Working Capital

	2006	2005
	(thousands)	
Accounts receivable	$ 92	$ 53
Intercompany accounts receivable	5	(71)
Accounts payable	14	(6)
Intercompany accounts payable	(76)	18
	$ 35	$ (6)

8. Financial Instruments

a. Fair value of financial instruments

The fair value of the Corporation's financial instrument is based on the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	$ 1,100	$ 1,096	$ -	$ -

b. The carrying values of the Corporation's other financial instruments (intercompany accounts receivable, accounts receivable, bank indebtedness, accounts payable, and intercompany accounts payable) approximate fair value due to their relatively short-term nature.

c. Credit risk management

The Corporation provides credit to its customers in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers. During 2006, the Corporation had one non-related customer from which it earned approximately 44 per cent of its revenue (2005 - 38 per cent).

9. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2006	2005
	(thousands)	
Natural gas commodity purchases	**$ 427**	$ 592
Transportation expense	**493**	517
Operating and maintenance expenses	**97**	88
Other revenue	**21**	20
Interest expense	**7**	9

These items have been recorded at their exchange rates. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

10. Rate Regulation

The business activities of the Corporation are regulated by the Manitoba Public Utilities Board (MPUB).

The Corporation follows generally accepted accounting principles for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

a. For rate setting purposes, the Corporation's approved gas consumption charge for natural gas is based on the principle that over the long term it neither profits from nor incurs a loss on sale.

   The Purchase Gas Variance Account (PGVA) accumulates differences between commodity sales revenue and the commodity cost of gas sold. Subject to approval of MPUB, balances accumulated in the PGVA are either recovered from or refunded to customers through future rates.

10. Rate Regulation (continued)

The PGVA has an accumulated receivable balance, for regulatory purposes, of $295 thousand as at December 31, 2006 (2005 - $417 thousand) consisting primarily of prior years' unrecovered transportation costs. There was a $122 thousand recovery during 2006 ($31 thousand increase during 2005). The PGVA has not been recorded as a regulatory receivable in these financial statements due to uncertainty as to whether or not this amount will actually be recovered.

11. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKATCHEWAN FIRST CALL CORPORATION

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Auditors' Report

To the Shareholder of Saskatchewan First Call Corporation

We have audited the statement of financial position of Saskatchewan First Call Corporation as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKATCHEWAN FIRST CALL CORPORATION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ -	$ 48
Accounts receivable	14	10
Intercompany accounts receivable	28	11
Prepaid expenses	13	13
	55	82
Property, plant and equipment (Note 3)	35	61
	$ 90	$ 143
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 36	$ -
Accounts payable	12	13
Short-term loan payable to parent (Note 4)	-	115
	48	128
Shareholder's equity		
Share capital (Note 5)	1	1
Retained earnings	41	14
	42	15
	$ 90	$ 143

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Location services	$ 424	$ 417
Expenses		
Operating and maintenance	368	379
Amortization (Note 3)	26	26
Interest	3	2
	397	407
Net earnings	27	10
Retained earnings, beginning of year	14	4
Retained earnings, end of year	$ 41	$ 14

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 27	$ 10
Add item not requiring an outlay of cash		
Amortization	26	26
	53	36
Net change in non-cash working capital related to operations (Note 6)	(22)	(57)
Cash provided by (used in) operating activities	31	(21)
Financing Activities		
Short-term loan payable to parent (Note 4)		
payable to parent (Note 4)	(115)	115
Increase (decrease) in bank indebtedness	36	(46)
Cash (used in) provided by financing activities	(79)	69
(Decrease) increase in cash during the year	(48)	48
Cash position, beginning of year	48	-
Cash position, end of year	$ -	$ 48

(See accompanying notes)

1. Status of the Corporation

Saskatchewan First Call Corporation was created on April 5, 2002 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation has established a database for the location of certain underground utility facilities and oil, gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, the Corporation provides a service whereby landowners and other stakeholders may contact the Corporation to determine the location of underground facilities.

The Corporation recovers its costs of operation from subscriber companies participating in this notification service.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is as follows (in per cent):

Computer hardware and software	20

b. Revenue recognition

Revenue is recognized when it has been determined that a member requires notification of an intention to excavate near its facilities. An estimate of notifications not billed is included in revenue. Prepayment for notifications is not included in revenue until it has been earned.

3. Property, Plant and Equipment

	2006			2005		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware and software	$ 129	$ 94	$ 35	$ 129	$ 68	$ 61

The composite rate of amortization was 20 per cent during 2006 (20 per cent during 2005).

4. Short-Term Loan Payable To Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $1,000 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

5. Share Capital

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. One hundred (100) shares are issued and outstanding.

6. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations is as follows:

	2006	2005
	(thousands)	
Accounts receivable	$ (4)	$ (5)
Intercompany accounts receivable	(17)	(4)
Accounts payable	(1)	-
Intercompany accounts payable	-	(48)
	$ (22)	$ (57)

7. Financial Instruments

The carrying value of financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, and accounts payable) approximates fair value due to the relatively short term nature of these items.

8. Related Party Transactions

i. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Related party transactions with SaskEnergy and its subsidiaries were as follows:

	2006	**2005**
	(thousands)	
Notification services revenue	**$ 289**	$ 278
Operating and maintenance expenses	**276**	280
Interest expense	**3**	2

These items have been recorded at their exchange amounts. Amounts outstanding at year end with SaskEnergy and its subsidiaries have been shown as intercompany accounts receivable on the statement of financial position.

8. Related Party Transactions (continued)

ii. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2006	2005
	(thousands)	
Operating expenses	$ 52	$ 62
Revenue	95	103
Accounts receivable	7	3
Accounts payable	5	5

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2006 and the consolidated statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ -	$ 94
Accounts receivable	13	15
	13	109
Long-term investments (Note 3)	25,145	24,410
	$ 25,158	$ 24,519
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 1,673	$ -
Short-term loans payable to parent	-	1,190
Accounts payable	125	112
Intercompany accounts payable	30	226
	1,828	1,528
Shareholder's equity		
Share capital (Note 4)	29,384	29,384
Foreign currency translation adjustment (Note 3)	(2,066)	(1,627)
Deficit	(3,988)	(4,766)
	23,330	22,991
	$ 25,158	$ 24,519

Commitments (Note 9)

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Earnings and Deficit

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Share of equity investments' net earnings (Note 3)	$ 1,174	$ 674
Expenses		
Operating	335	758
Interest (Note 5)	61	22
	396	780
Net earnings (loss)	778	(106)
Deficit, beginning of year	(4,766)	(4,660)
Deficit, end of year	$ (3,988)	$ (4,766)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings (loss)	$ 778	$ (106)
Deduct items not requiring an outlay of cash		
Share of equity investments' net earnings	(1,174)	(674)
	(396)	(780)
Net change in non-cash working capital related to operations (Note 6)	(181)	178
Cash used in operating activities	(577)	(602)
Financing Activities		
Increase (decrease) in bank indebtedness	1,673	(494)
(Decrease) increase in short-term loans payable to parent	(1,190)	1,190
Cash provided by financing activities	483	696
(Decrease) increase in cash during the year	(94)	94
Cash position, beginning of year	94	-
Cash position, end of year	$ -	$ 94

(See accompanying notes)

1. Status of the Corporation

SaskEnergy International Incorporated was incorporated under *The Canada Business Corporations Act* on February 17, 1981 and commenced international operations on March 1, 1996. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Mexican Holdings Ltd, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd.

b. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

c. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

2. Summary of Significant Accounting Policies (continued)

d. Employees' future benefits

The Corporation provides a defined contribution pension plan for all eligible employees. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations.*

Under the plan the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates.

3. Long-Term Investments

Long-term investments are as follows:

	2006		**2005**	
	Amount (thousands)	**Per cent Ownership**	**Amount (thousands)**	**Per cent Ownership**
Equity investment				
Gas Sur S.A.				
Initial investment	**$ 13,784**	**30.0**	$ 13,784	30.0
Equity earnings	**1,506**		864	
Foreign currency translation adjustment	**(597)**		(118)	
	14,693		14,530	
Igasamex USA LTD.				
Initial investment	**10,880**	**40.1**	10,880	40.1
Equity earnings	**1,041**		509	
Foreign currency translation adjustment	**(1,469)**		(1,509)	
	10,452		9,880	
	$ 25,145		$ 24,410	

3. Long-Term Investments (continued)

a. Gas Sur S.A.

The Corporation's 30 per cent share of Gas Sur S.A.'s 2006 net earnings was $642 thousand (2005 - $379 thousand). The Corporation's share of the foreign currency translation adjustment for 2006 resulted in a $479 thousand reduction in the balance of the investment in Gas Sur S.A. (2005 - $640 thousand increase).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2005 - $5,100 thousand).

b. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2006 net earnings was $532 thousand (2005 - $295 thousand). The Corporation's share of the foreign currency translation adjustment for 2006 resulted in a $40 thousand increase in the balance of the investment in Igasamex USA Ltd. (2005 - $342 thousand reduction).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,800 thousand (2005 - $4,900 thousand).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 2,938,432 shares (2005 - 2,938,432) issued and outstanding.

5. Interest Expense

During the year, the Corporation made cash payments for interest to the parent of $57 thousand (2005 - $20 thousand).

6. Net Change in Non-Cash Working Capital

	2006	2005
	(thousands)	
Accounts receivable	$ 2	$ 3
Accounts payable	13	(8)
Intercompany accounts payable	(196)	183
	$ (181)	$ 178

7. Financial Instruments

The carrying values of the Corporation's financial instruments (accounts receivable, bank indebtedness, accounts payable, and intercompany accounts payable) approximate fair value due to their relatively short-term nature.

8. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2006	2005
	(thousands)	
Corporate expenses	$ 51	$ 91
Interest expense	$ 60	$ 22

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

9. Commitments

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

10. Employees' Future Benefits

a. Pension plans

All employees of the Corporation are members of the defined contribution pension plan. During the year, the Corporation contributed $9 thousand (2005 - $21 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees is as follows:

	2006	**2005**
	(thousands)	
Accrued benefit liability	**$ 63**	$ 61
Benefits paid during the year	-	-
Net expense	**13**	(2)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2006	**2005**
Discount rate	**4.50 per cent**	4.50 per cent
Inflation rate	**2.50 per cent**	2.50 per cent
Average remaining employee service life	**6.4 years**	7.4 years

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings I Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Chilean Holdings I Ltd. as at December 31, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Long-term investment (Note 3)	$ 14,551	$ 14,388
Liabilities and Shareholder's Equity		
Minority interest (Note 4)	$ 14	$ 14
Shareholder's equity		
Share capital (Note 5)	13,629	13,629
Foreign currency translation adjustment (Note 3)	(596)	(118)
Retained earnings	1,504	863
	14,537	14,374
	$ 14,551	$ 14,388

Commitment (Note 6)

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Share of equity investment net earnings (Note 3)	$ 642	$ 379
Minority interest (Note 4)	(1)	(1)
Net earnings	641	378
Retained earnings, beginning of year	863	485
Retained earnings, end of year	$ 1,504	$ 863

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 641	$ 378
Deduct non-cash item		
Minority interest share of equity interest earnings	1	1
Share of equity investment net earnings	(642)	(379)
Cash provided by operating activities	-	-
Decrease in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Chilean Holdings I Ltd. was created on August 27, 1996 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and a Chilean limited partnership, SaskEnergy Chilean Holdings Limitada (99.9 per cent ownership interest). The 0.1 per cent minority interest in SaskEnergy Chilean Holdings Limitada is held by SaskEnergy Chilean Holdings II Ltd. (an affiliate).

b. Long-term investment

The Corporation accounts for its investment in Gas Sur S.A. using the equity method.

c. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. Long-Term Investment

As at December 31, the 30.0 per cent equity investment in Gas Sur S.A. was as follows:

	2006	2005
	(thousands)	
Equity investment	**$ 13,642**	$ 13,642
Equity earnings	**1,506**	864
Currency translation adjustment	**(597)**	(118)
	$ 14,551	$ 14,388

The Corporation's share of the foreign currency translation adjustment for 2006 resulted in a $479 thousand reduction in the balance of the investment in Gas Sur S.A. (2005 - $640 thousand increase). The Corporation's 30 per cent share of Gas Sur S.A.'s 2006 net earnings was $642 thousand (2005 - $379 thousand).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2005 - $5,100 thousand).

4. Minority Interest

The Corporation has a 99.9 per cent ownership interest in SaskEnergy Chilean Holdings Limitada. SaskEnergy Chilean Holdings II Ltd. (an affiliate) owns the remaining 0.1 per cent interest. The minority interest is SaskEnergy Chilean Holdings II Ltd.'s 0.1 per cent share interest in SaskEnergy Chilean Holdings Limitada.

As at December 31, the 0.1 per cent minority interest was as follows:

	2006	2005
	(thousands)	
Minority interest, beginning of year	**$ 14**	$ 13
Minority interest share of equity earnings	**1**	1
Minority interest share of currency translation adjustment	**(1)**	-
Minority interest, end of year	**$ 14**	$ 14

5. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. At December 31, 2006, 1,362,867.9 shares (2005 - 1,362,867.9) are issued and outstanding.

6. Commitment

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars.

SASKENERGY CHILEAN HOLDINGS II LTD.

FINANCIAL STATEMENT

December 31, 2006

Deloitte

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900 - 2103 11th Ave
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Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings II Ltd.

We have audited the statement of financial position of SaskEnergy Chilean Holdings II Ltd. as at December 31, 2006. This financial statement is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY CHILEAN HOLDINGS II LTD.

Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Long-term investment (Note 3)	**$ 14**	$ 14
Shareholder's Equity		
Share capital (Note 4)	**$ 14**	$ 14

(See accompanying notes)

On behalf of the Board:

Director

Heather Kean

Director

SaskEnergy Chilean Holdings II Ltd.
Notes to the Financial Statements
December 31, 2006

1. Status of the Corporation

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue or expenses or cash flows, and accordingly a statement of earnings and statement of cash flows are not included.

2. Summary of Significant Accounting Policies

This financial statement has been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets. Actual results could differ from these estimates. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada using the cost method (0.1 per cent ownership interest as at December 31, 2006 and December 31, 2005).

3. Long-Term Investment

The Corporation holds a 0.1 per cent interest in SaskEnergy Chilean Holdings Limitada with SaskEnergy Chilean Holdings I Ltd. (an affiliate) holding the remaining 99.9 per cent interest. The cost of the Corporation's investment in SaskEnergy Chilean Holdings Limitada is $13.6 thousand as at December 31, 2006 (2005 - $13.6 thousand).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There are 1,365.2 shares (2005 - 1,365.2) issued and outstanding.

SaskEnergy Chilean Holdings II Ltd.
Notes to the Financial Statements
December 31, 2006

1. Status of the Corporation

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue or expenses or cash flows, and accordingly a statement of earnings and statement of cash flows are not included.

2. Summary of Significant Accounting Policies

This financial statement has been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets. Actual results could differ from these estimates. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada using the cost method (0.1 per cent ownership interest as at December 31, 2006 and December 31, 2005).

3. Long-Term Investment

The Corporation holds a 0.1 per cent interest in SaskEnergy Chilean Holdings Limitada with SaskEnergy Chilean Holdings I Ltd. (an affiliate) holding the remaining 99.9 per cent interest. The cost of the Corporation's investment in SaskEnergy Chilean Holdings Limitada is $13.6 thousand as at December 31, 2006 (2005 - $13.6 thousand).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There are 1,365.2 shares (2005 - 1,365.2) issued and outstanding.

SASKENERGY CHILEAN HOLDINGS LIMITADA

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Auditors' Report

To the Partners of SaskEnergy Chilean Holdings Limitada

We have audited the statement of financial position of SaskEnergy Chilean Holdings Limitada as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the limited partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the limited partnership as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Long-term investment (Note 3)	$ 14,551	$ 14,388
Partnership Equity		
Partnership contributions (Note 4)	13,642	13,642
Retained earnings	1,506	864
Foreign currency translation adjustment (Note 3)	(597)	(118)
	$ 14,551	$ 14,388

Commitment (Note 5)

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Share of equity investment net earnings (Note 3)	**$ 642**	$ 379
Net earnings	**642**	379
Retained earnings, beginning of year	**864**	485
Retained earnings, end of year	**$ 1,506**	$ 864

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ **642**	$ 379
Deduct non-cash item		
Share of equity investment net earnings	**(642)**	(379)
Cash provided by operating activities	-	-
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Limited Partnership

SaskEnergy Chilean Holdings Limitada was established on December 16, 1998 as a Chilean limited partnership owned by two Canadian corporations – SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. The Canadian corporations are wholly owned subsidiaries of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. have 99.9 per cent and 0.1 per cent respective ownership interests in the limited partnership. The net earnings of the limited partnership are attributed to the partners.

The affairs of the limited partnership are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Long-term investment

The limited partnership accounts for its investment in Gas Sur S.A. by the equity method.

b. Foreign currency translation adjustment

The limited partnership's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos to Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected as a foreign currency translation adjustment in Partnership Equity.

3. Long-Term Investment

As at December 31, the 30.0 per cent equity investment (2005 - 30.0 per cent) in Gas Sur S.A. was as follows:

	2006	2005
	(thousands)	
Equity investment	$ 13,642	$ 13,642
Equity earnings	1,506	864
Currency translation adjustment	(597)	(118)
	$ 14,551	$ 14,388

The Corporation's share of the foreign currency translation adjustment for 2006 resulted in a $479 thousand reduction in the balance of the investment in Gas Sur S.A. (2005 - $640 thousand increase). The Corporation's 30 per cent share of Gas Sur S.A.'s 2006 net earnings was $642 thousand (2005 - $379 thousand).

The cost of the investment exceeded the limited partnership's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2005 - $5,100 thousand).

4. Partnership Equity

	2006			
	SaskEnergy Chilean Holdings I Ltd. 99.9 per cent	SaskEnergy Chilean Holdings II Ltd. 0.1 per cent	Total	2005
		(thousands)		
Partnership contributions	$ 13,629	$ 13	$ 13,642	$ 13,642
Net earnings	1,504	2	1,506	864
Foreign currency translation adjustment	(596)	(1)	(597)	(118)
Partnership equity	$ 14,537	$ 14	$ 14,551	$ 14,388

5. Commitment

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars.

SASKENERGY MEXICAN HOLDINGS LTD.

FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy Mexican Holdings Ltd.

We have audited the statement of financial position of SaskEnergy Mexican Holdings Ltd. as at December 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Long-term investment (Note 3)	$ 10,313	$ 9,741
Shareholder's Equity		
Share capital (Note 4)	$ 10,741	$ 10,741
Foreign currency translation adjustment (Note 3)	(1,469)	(1,509)
Retained earnings	1,041	509
	$ 10,313	$ 9,741

Commitments (Note 5)

(See accompanying notes)

On behalf of the Board:

Director

Heather Hea

Director

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Share of equity investment net earnings (Note 3)	**$ 532**	$ 295
Net earnings	**532**	295
Retained earnings, beginning of year	**509**	214
Retained earnings, end of year	**$ 1,041**	$ 509

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 532	$ 295
Add item not requiring an outlay of cash		
Share of equity investment net earnings	(532)	(295)
Cash provided by operating activities	-	-
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

SaskEnergy Mexican Holdings Ltd.
Notes to the Financial Statements
December 31, 2006

1. Status of the Corporation

SaskEnergy Mexican Holdings Ltd. was incorporated on November 15, 2001 under *The Canada Business Corporations Act* and is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Long-term investment

The Corporation accounts for its investment in Igasamex USA Ltd. using the equity method.

b. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from United States dollars into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the United States dollar and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. Long-Term Investment

As at December 31, the equity investment in Igasamex USA Ltd. was as follows:

	2006		2005	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
Equity investment	**$ 10,741**	**40.1**	$ 10,741	40.1
Equity earnings	**1,041**		509	
Currency translation adjustment	**(1,469)**		(1,509)	
	$ 10,313		$ 9,741	

The Corporation's share of the foreign currency translation adjustment for 2006 resulted in a $40 thousand increase on in the balance of the investment in Igasamex USA Ltd. (2005 - $342 thousand reduction). The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2006 net earnings was $532 thousand (2005 - $295 thousand).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,800 thousand (2005 - $4,900 thousand).

The equity interest is held through general partnership and limited partnership units.

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There are 1,074,100.9 shares (2005 - 1,074,100.9) issued and outstanding.

5. Commitments

SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

Deloitte

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Auditors' Report

To the Shareholder of SaskEnergy Nova Scotia Holdings Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Nova Scotia Holdings Ltd. as at December 31, 2006 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 9, 2007

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	$ 824	$ 646
Accounts receivable	1,377	818
Inventories of supplies	89	95
Intercompany accounts receivable	2	-
Prepaid expenses	69	53
Gas cost variance account	8	15
	2,369	1,627
Property, plant and equipment (Note 4)	26,115	16,849
Revenue deficiency account (Note 5)	5,168	2,709
Deferred charges (Note 6)	189	151
	$ 33,841	$ 21,336
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$ 2,745	$ 1,631
Intercompany accounts payable	120	118
	2,865	1,749
Long-term debt (Note 8)	17,855	11,747
	20,720	13,496
Shareholder's equity		
Share capital (Note 9)	9,861	6,152
Retained earnings	3,260	1,688
	13,121	7,840
	$ 33,841	$ 21,336

Commitments (Note 10)

On behalf of the Board:

Director

Heather Hea

Director

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	2006	2005
Revenue		
Revenue deficiency accrual (Note 5)	$ 2,459	$ 1,650
Commodity sales	2,125	868
Delivery	713	233
Allowance for funds used during construction (Note 4)	484	362
Other	19	5
	5,800	3,118
Expenses		
Cost of gas sold	2,125	868
Operating and maintenance	932	584
Interest (Note 8)	594	350
Amortization of property, plant and equipment	453	243
Amortization of deferred charges (Note 6)	51	52
Corporation capital tax	73	57
	4,228	2,154
Net earnings	1,572	964
Retained earnings, beginning of year	1,688	724
Retained earnings, end of year	$ 3,260	$ 1,688

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2006	2005
Operating Activities		
Net earnings	$ 1,572	$ 964
Add (deduct) items not requiring an outlay of cash		
Allowance for funds used during construction	(484)	(362)
Amortization of property, plant and equipment	453	243
Amortization of deferred charges	51	52
Revenue deficiency accrual	(2,459)	(1,650)
	(867)	(753)
Net change in non-cash working capital (Note 12)	552	448
Cash used in operating activities	(315)	(305)
Investing Activities		
Additions to property, plant and equipment	(9,235)	(7,682)
Deferred charges incurred (Note 6)	(89)	-
Cash used in investing activities	(9,324)	(7,682)
Financing Activities		
Proceeds from long-term debt	6,108	6,167
Proceeds from share capital issue	3,709	2,063
Cash provided by financing activities	9,817	8,230
Increase in cash during the year	178	243
Cash position, beginning of year	646	403
Cash position, end of year	$ 824	$ 646

(See accompanying notes)

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2006

1. Status of the Corporation

SaskEnergy Nova Scotia Holdings Ltd. was created on September 13, 2002 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas Limited (Heritage Gas), a joint venture.

b. Rate regulation

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). Heritage Gas' accounting policies conform to Canadian generally accepted accounting principles for rate regulated utilities and reflect the policies established by the NSUARB. The impact of rate regulation on the application of Canadian generally accepted accounting principles as described in notes 4 and 5 are as follows:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia (see Note 8). The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

ii. Regulatory process – delivery tariff

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The GTA process completed in 2006 established the revenue requirement and rates to be charged for the period January 1, 2007 – December 31, 2011.

2. Summary of Significant Accounting Policies (continued)

iii. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use an RDA until it is fully recovered. The RDA changes based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. Heritage Gas projects to fully recover its RDA by 2019.

iv. Allowance for funds used during construction

Heritage Gas capitalizes an imputed carrying cost on assets under construction at a rate approved by the NSUARB. This amount capitalized is disclosed on the statement of earnings as allowance for funds used during construction (AFUDC). AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at Heritage Gas' mid-month cost of construction work in process multiplied by Heritage Gas' weighted average cost of capital percentage. AFUDC is included in the cost of the related assets and recovered in future periods through amortization expenses. Non-rate regulated companies generally capitalize interest on debt during construction of assets based on their cost of debt financing.

v. Capitalized expenses

The NSUARB has approved the continued capitalization of operating and maintenance expenses to 2011. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized. The percentage capitalized is as follows:

	2006	**2005**
	Per cent	
Executive, operations, human resources, finance and administration, and overhead	**25**	50
Marketing, engineering, construction, regulatory and public affairs	**100**	100

2. Summary of Significant Accounting Policies (continued)

vi. Gas cost variance account (GCVA)

The GCVA is the difference between the cost of natural gas sold and the current rate charged to customers. The balance in the GCVA is either recovered from or refunded to customers through adjustments to future rates.

vii. Property, plant and equipment

The AFUDC and capitalized expenses are amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year end balance as approved by the NSUARB. Approved amortization rates are as follows:

Distribution	
- Franchise acquisition	4.00%
- Mains and services	2.10% - 2.70%
- Regulating and metering stations	2.56% - 4.18%
- Meters	3.51%
Computer systems	20.00% - 33.00%
Vehicles and equipment	5.00% - 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

viii. Cost of gas sold

Cost of gas sold is the cost of gas purchased for resale to customers. Charges for gas delivered are based on the forecast of cost of natural gas and variances between the forecast cost and the actual cost of natural gas are deferred for refund to, or collection from customers in subsequent periods.

ix. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income. Non-rate regulated companies would account for income taxes on the liability method and record a future income tax asset or liability less a valuation provision if realization of the assets was not considered more likely than not.

x. Deferred charges

Costs incurred by Heritage Gas related to its regulatory proceedings are deferred and amortized on a straightline basis over a period as approved by the NSUARB.

2. Summary of Significant Accounting Policies (continued)

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus capitalized expenses and an AFUDC.

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

e. Revenue recognition

Revenues include revenue from the distribution of natural gas and recovery of the Corporation's cost of natural gas paid to suppliers, and the associated gas supply costs. The Corporation recognizes revenues as earned when gas has been delivered or services have been performed. Distribution revenues are recorded on the basis of regular meter readings and estimates of customer usage from the date of the last meter reading to the end of the reporting period. The Corporation's operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. The Corporation's delivery charges are designed to recover the Corporation's total cost of delivery and an approved rate of return on equity.

3. Revolving Demand Facility

The Corporation, through its interest in Heritage Gas, has a $500 thousand (2005 - $500 thousand) revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus one per cent, which is secured by a General Security Agreement over all personal property of Heritage Gas.

4. Property, Plant and Equipment

(thousands)

	2006			2005		
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Franchise acquisition costs	**$ 1,668**	**$ 201**	**$ 1,467**	$ 1,668	$ 134	$ 1,534
Mains and services	**23,558**	**346**	**23,212**	14,456	93	14,363
Regulating and metering stations	**369**	**53**	**316**	370	14	356
Meters	**555**	**7**	**548**	178	3	175
Computer systems	**196**	**105**	**91**	181	51	130
Vehicles and equipment	**321**	**34**	**287**	101	17	84
Tools, furniture and leaseholds	**231**	**37**	**194**	225	18	207
	$ 26,898	**$ 783**	**$ 26,115**	$ 17,179	$ 330	$ 16,849

Franchise acquisition costs represent payments made for costs incurred to acquire the franchise.

In 2006 the Corporation recorded $484 thousand (2005 - $362 thousand) in AFUDC. The cumulative AFUDC recorded as at December 31, 2006 was $1,066 thousand (2005 - $582 thousand).

Included in mains and services is work in progress in the amount of $3,232 thousand for the year ended December 31, 2006 (2005 - $2,899 thousand). Work in progress is not depreciated until the year after the plant is brought into active service, as approved by the NSUARB.

The capitalization of operating and maintenance expenses effectively decreased expenses and increased property, plant and equipment in 2006 by $1,298 thousand (2005 - $1,490 thousand). The cumulative operating expenses capitalized as at December 31, 2006 were $5,652 thousand (2005 - $4,354 thousand).

In 2004, Heritage Gas constructed certain assets related to a large customer within its franchise area. At December 31, 2005, these assets had not yet been put into use by the Heritage Gas and had been recorded as assets under construction within property, plant and equipment. In 2006, the Heritage Gas activated the assets to supply other customers, and pursuant to a decision issued by the NSUARB on December 21, 2006, included a portion of the asset cost ($250 thousand) in rate base and the relevant operating costs in rates. Discussions continue with the large customer to fully utilize the assets, and the Company continues to explore alternative uses of these assets and is confident that these assets will be fully utilized in the foreseeable future. Based on projected cash flows, management does not consider the current value of the assets to be impaired. However, significant changes in results from those assumed in the current business plan could impact the estimated cash flows and should the economic values of these assets be determined to be impaired, a reduction in the net book value of these assets could be material to net earnings.

5. Revenue Deficiency Account

	2006	2005
	(thousands)	
Revenue deficiency account, beginning of year	**$ 2,709**	$ 1,059
Accrued during year	**2,459**	1,650
Revenue deficiency account, end of year	**$ 5,168**	$ 2,709

The effect of accruing this revenue was to increase revenue and increase the revenue deficiency account.

6. Deferred Charges

Deferred charges include third party costs related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period as approved by the NSUARB.

	2006	2005
	(thousands)	
Deferred charges, beginning of year	**$ 151**	$ 203
Cost incurred during year	**89**	-
Amortization	**(51)**	(52)
Deferred charges, end of year	**$ 189**	$ 151

7. Short-Term Loan Payable To Parent

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $3,808 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

8. Long-Term Debt

	2006		2005	
	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)
Note payable to parent	$ 15,049	5.25	$ 8,941	5.25
Province of Nova Scotia	2,806	-	2,806	-
	$ 17,855		$ 11,747	

a. Note payable to parent

As per the agreement amongst the shareholders of Heritage Gas, the Corporation received $6,108 thousand in loans from SaskEnergy based on their proportionate basis of ownership interest of Heritage Gas during 2006 (2005 - $3,361 thousand).

b. Province of Nova Scotia

During 2005, $3,808 thousand was received from the Province of Nova Scotia. As prescribed capital investment targets were achieved by December 31, 2006, $1,002 thousand of the loan will be forgiven in 2007. The Corporation is anticipating that the capital investment targets will be achieved and consequently has recorded the $1,002 thousand as a reduction of property, plant and equipment.

The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6.00 per cent. The Province of Nova Scotia loan is guaranteed by the Corporation based on its proportionate basis of ownership interest in Heritage Gas. On or before July 1, 2011, Heritage Gas must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012. Heritage Gas may also elect to fully repay the loan at any time with no penalty.

c. Interest expense

Interest expense was as follows:

	2006	2005
	(thousands)	
Interest on long-term debt	$ 610	$ 365
Interest on short-term investment	(16)	(15)
	$ 594	$ 350

There was $588 thousand (2005 - $347 thousand) in cash interest payments during the year.

9. Share Capital

Authorized share capital consists of an unlimited number of class A common voting shares without nominal or par value.

	2006		2005	
	Shares	**Amount (thousands)**	**Shares**	**Amount (thousands)**
Share capital, beginning of year	**6,151,583**	**$ 6,152**	4,089,163	$ 4,089
Issued during the year	**3,709,255**	**3,709**	2,062,420	2,063
Share capital, end of year	**9,860,838**	**$ 9,861**	6,151,583	$ 6,152

10. Commitments

Future minimum lease payments under operating leases for office space and office equipment are estimated as follows:

	(thousands)
2007	**$ 106**
2008	**93**
2009	**87**
2010	**2**
2011	**1**

11. Financial Instruments

The fair value of the Corporation's financial instruments are listed below:

	2006		2005	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(thousands)			
Long-term debt	**$ 15,049**	**$ 15,887**	$ 8,941	$ 9,545

The carrying values of other financial instruments (cash, accounts receivable, intercompany accounts receivable, accounts payable and intercompany accounts payable) approximate fair value due to their relatively short term nature.

12. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2006	2005
	(thousands)	
Accounts receivable	$ (559)	$ (463)
Inventories of supplies	6	125
Intercompany accounts receivable	(2)	-
Prepaid expenses	(16)	(23)
Gas cost variance account	7	(12)
Accounts payable	1,114	766
Intercompany accounts payable	2	55
	$ 552	$ 448

13. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy, and amounts outstanding at year end, are as follows:

	2006	2005
	(thousands)	
Interest payable on note payable to parent	$ 61	$ 39
Interest expense on note payable to parent	610	365
Interest expense from parent	15	-
Interest receivable from parent	2	-
Intercompany accounts payable	120	118
Operating and maintenance expenses	78	102
Accounts payable	33	16

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

14. Joint Venture Interest

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent interest in the Heritage Gas joint venture:

a. Consolidated statement of financial position

	2006	2005
	(thousands)	
Current assets	**$ 1,833**	$ 1,392
Property, plant and equipment (Note 4)	**26,115**	16,849
Revenue deficiency account (Note 5)	**5,168**	2,709
Deferred charges (Note 6)	**189**	151
Current liabilities	**(2,776)**	(1,689)
Net investment	**$ 30,529**	$ 19,412

b. Consolidated statement of earnings

	2006	2005
	(thousands)	
Revenue	**$ 5,800**	$ 3,118
Expenses	**(3,610)**	(1,769)
Net earnings	**$ 2,190**	$ 1,349

c. Consolidated statement of cash flows

	2006	2005
	(thousands)	
Cash used in operating activities	**$ (619)**	$ (358)
Cash used in investing activities	**(9,324)**	(7,682)
Decrease in cash	**$ (9,943)**	$ (8,040)

15. Income Taxes

As at December 31, 2006, Heritage Gas has approximately $14,557 thousand in losses available to reduce future income taxes. These losses can be claimed no later than:

	(thousands)
2010	**$ 1,218**
2014	**4,173**
2015	**3,963**
2026	**5,203**

As of December 31, 2006, the unrecognized future income tax assets of Heritage Gas are approximately $1,817 thousand (2005 - $1,016 thousand).

16. Subsequent Event

Additional common shares of $544 thousand and $738 thousand in loans were advanced to SaskEnergy Nova Scotia Holdings Ltd. by SaskEnergy on January 8, 2007.

17. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

Heritage Gas Limited

Financial Statements
December 31, 2006

PRICEWATERHOUSECOOPERS

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Chartered Accountants
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Canada B3J 3K8
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February 1, 2007

Auditors' Report

To the Shareholders of
Heritage Gas Limited

We have audited the balance sheet of **Heritage Gas Limited** (the Company) as at December 31, 2006 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Heritage Gas Limited

Balance Sheet

As at December 31, 2006

	2006 $	2005 $
Assets (note 3)		
Current assets		
Cash	574,560	825,008
Accounts receivable	2,749,621	1,630,608
Inventory of supplies	176,508	188,985
Prepaid expenses	136,883	84,840
Gas cost variance account	16,422	29,191
	3,653,994	2,758,632
Property, plant and equipment (note 4)	52,126,025	33,632,924
Revenue deficiency account (note 5)	10,314,141	5,405,446
Deferred charges (note 6)	377,565	301,830
	66,471,725	42,098,832
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	6,170,866	3,732,665
Long-term debt (note 7)	35,637,698	23,446,404
	41,808,564	27,179,070
Shareholders' Equity		
Capital stock (note 8)	19,682,302	12,278,596
Retained earnings	4,980,859	2,641,166
	24,663,161	14,919,762
	66,471,725	42,098,832

Commitments (note 9)

See accompanying notes to the financial statements

Approved by the Board of Directors

Director

Director

Heritage Gas Limited

Statement of Income and Retained Earnings

For the year ended December 31, 2006

	2006 $	2005 $
Revenue		
Natural gas sales and distribution revenue	5,664,868	2,197,711
Cost of natural gas sales	4,242,209	1,732,379
Gas distribution margin	1,422,659	465,332
Allowance for funds used during construction (note 4)	966,000	723,000
Revenue deficiency accrual (note 5)	4,908,695	3,292,650
Municipal tax	44,273	11,323
Other	22,155	8,905
	7,363,782	4,501,210
Expenses		
Operating and maintenance (note 4)	1,789,416	1,096,307
Amortization of deferred charges	100,800	100,800
Amortization of property, plant and equipment	904,454	486,046
Corporate capital tax	145,400	113,625
Interest expense (note 10)	2,039,746	1,188,921
Municipal tax expense	44,273	11,323
	5,024,089	2,997,022
Net income for the year	2,339,693	1,504,188
Retained earnings – Beginning of year	2,641,166	1,136,978
Retained earnings – End of year	4,980,859	2,641,166

See accompanying notes to the financial statements

Heritage Gas Limited

Statement of Cash Flows

For the year ended December 31, 2006

	2006 $	2005 $
Cash provided by (used in)		
Operating activities		
Net income for the year	2,339,693	1,504,188
Charges (credits) to income not involving cash		
Allowance for funds used during construction	(966,000)	(723,000)
Amortization of deferred charges	100,800	100,800
Amortization of property, plant and equipment	904,454	486,046
Revenue deficiency accrual	(4,908,695)	(3,292,650)
	(2,529,748)	(1,924,616)
Net change in non-cash working capital balances (note 11)	(2,353,049)	(860,036)
	(4,882,797)	(2,784,652)
Investing activities		
Additions to property, plant and equipment	(14,786,116)	(15,262,627)
Decrease (increase) in deferred charges	(176,535)	1,628
	(14,962,651)	(15,260,999)
Financing activities		
Increase in shareholders' loans	12,191,294	6,708,404
Issuance of share capital	7,403,706	4,116,596
Increase in third party loans	-	5,600,000
Contributions in aid of construction	-	2,000,000
	19,595,000	18,425,000
Net change in cash during the year	(250,448)	379,349
Cash – Beginning of year	825,008	445,659
Cash – End of year	574,560	825,008

Supplementary cash flow information (note 11)

See accompanying notes to the financial statements

1 Status of the Company

Heritage Gas Limited (the Company) was incorporated on August 13, 2002 under The Canada Business Corporations Act.

The shareholders and their respective ownership interests are as follows:

SaskEnergy Nova Scotia Holdings Ltd.	50.1%
Silgascorp Inc.	25.0%
AltaGas Utility Holdings (Nova Scotia) Inc.	24.9%

On August 16, 2002, the Company applied for a full regulation class franchise for specific areas in Nova Scotia pursuant to The Gas Distribution Act (Nova Scotia). The Nova Scotia Utility and Review Board (NSUARB) awarded the Company the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which the Company accepted on June 3, 2003. The franchise term is 25 years.

2 Significant accounting policies

a) Regulation

The Company is engaged in the distribution of natural gas in Nova Scotia and is regulated by the NSUARB. The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. The Company's accounting policies conform to generally accepted accounting principles in the gas distribution industry and reflect the policies prescribed by the NSUARB. Rate regulation creates differences between the manner in which the Company accounts for transactions or events and how they would be accounted for if the Company was not subject to rate regulation. Differences in accounting treatment arise from adoption of the following rate regulated accounting practices:

- the use of a revenue deficiency account (note 2(d));
- recognizing an allowance for funds used during construction (note 2(l));
- using a gas cost variance account in the recovery of gas costs from customers (note 2(i));
- capitalizing certain operating and maintenance expenses (notes 2(j) and 4);
- using the taxes payable method and not accounting for future income taxes (note 2(k));
- amortizing additions to property, plant and equipment (note 2(f)) differently from enterprises not subject to rate regulation; and
- deferring costs related to the regulatory hearings (notes 2(m) and 6).

2 Significant accounting policies (continued)

b) Return on rate base

The Company is allowed the opportunity to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The Company's return on rate base is equal to the sum of (a) its net rate base multiplied by the allowed equity component percentage multiplied by the allowed rate of return on equity, plus (b) its net rate base multiplied by the allowed debt component percentage multiplied by the allowed regulatory rate for debt. The rate base is the aggregate of the Company's investment in plant, property and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital. The net rate base excludes from the rate base no-cost capital, which consists of an interest free loan from the Province of Nova Scotia, which is described in note 7.

The Company's current regulated capital structure was approved by the NSUARB in 2003 and is set at 55% for debt and 45% for equity. The capital structure will remain unchanged until at least December 31, 2011. The rate of return on common equity was approved by the NSUARB in 2003, is set at 13% and the allowed regulatory rate for debt was approved by the NSUARB in 2003, is set at 8.75%. Both rates will remain unchanged until at least December 31, 2011.

c) Regulatory process – delivery tariffs

The Company's delivery tariffs are determined through a General Tariff Application (GTA) process, which establishes the Company's revenue requirement and the rates to be charged to various customer classes for a specific test period. The Company seeks approval of its revenue requirement through an administrative hearing before the NSUARB. Factors affecting the Company's revenue requirement include forecasts for rate base, distribution and other revenue, operating costs, amortization, capital taxes, income taxes and return on rate base. The approved revenue requirement and subsequent approved rates are based on forecasts and actual results can differ from these forecasts. The most recent GTA process was completed in 2006 which established the Company's revenue requirement and rates to be charged to various customer classes for the period January 1, 2007 – December 31, 2011.

d) Revenue deficiency account (RDA)

The Company has approval from the NSUARB to use a RDA until it is fully recovered. The RDA is debited or credited based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. In the Company's customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore a RDA asset will accumulate. As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The Company projects to fully recover its RDA by 2019.

e) Inventory of supplies

Inventory of supplies consists primarily of pipe and general materials for construction and maintenance and is recorded at average cost.

2 Significant accounting policies (continued)

f) Property, plant and equipment

Property, plant and equipment are recorded at cost and include all costs of materials, labour and services to construct or purchase plus capitalized operating and maintenance expenses (note 2 (j)) and an allowance for funds used during construction (AFUDC) (note 2 (l)).

The capitalized expenses and AFUDC are capitalized and amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year-end, as approved by the NSUARB.

Franchise acquisition	4.00%
Mains and services	2.10% - 2.70%
Regulating and metering stations	2.56% - 4.18%
Meters	3.51%
Computer systems	20.00% - 33.00%
Vehicles and equipment	5.00% - 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

The Company has not recorded an asset retirement obligation due to the indeterminate life of its distribution and supply network and corresponding indeterminable timing and scope of asset retirements.

g) Revenue recognition

Revenues include revenue from the distribution of natural gas and recovery of the Company's cost of gas paid to suppliers, and the associated gas supply costs. The Company recognizes revenues as earned when gas has been delivered or services have been performed. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of customer usage from the date of the last meter reading to the end of the reporting period. The Company's operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. The Company's delivery charges are designed to recover the Company's total cost of delivery and an approved return on equity.

h) Cost of natural gas sales

Cost of natural gas sales is the cost of gas purchased for resale to customers. Charges for gas delivered are based on the forecast cost of natural gas and variances between the forecast cost and the actual cost of natural gas are deferred for refund to, or collection from, customers in subsequent periods.

2 Significant accounting policies (continued)

i) Gas cost variance account (GCVA)

GCVA is the difference between the cost to purchase natural gas and the current rate charged to customers. The GCVA balance is recovered from or refunded to customers through adjustments to future charges.

j) Capitalized expenses

The NSUARB has approved in its decision rendered on December 21, 2006, that the Company can continue to capitalize certain operating and maintenance expenses to 2011. If the Company was not subject to rate regulation, certain of these amounts would not be capitalized. The following table identifies the rates at which operating and maintenance expenses were capitalized during the year:

	2006	**2005**
Executive, operations, human resources, finance and administration, and overhead	25%	50%
Marketing, engineering, construction, and regulatory and public affairs	100%	100%

k) Income taxes

Income taxes are provided by the Company using the taxes payable method as approved by the NSUARB and as such no future income taxes are recognized in the financial statements. The Company is a rate-regulated enterprise and all future income taxes are expected to be recovered in the rates charged to customers in the future. Non-rate regulated companies would account for income taxes on the liability method and record future income tax asset or liability less a valuation provision if realization of the assets is not considered more likely than not.

l) Allowance for funds used during construction (AFUDC)

In accordance with accounting policies approved by the NSUARB, the Company capitalizes an imputed carrying cost on assets under construction at a rate approved by the NSUARB. This amount capitalized is disclosed on the income statement as AFUDC. AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at the Company's mid-month cost of construction work-in-progress multiplied by the Company's regulated weighted average cost of capital percentage. AFUDC is included in the cost of the related assets and recovered in future periods through amortization charges. Non-rate regulated companies generally capitalize interest on debts during construction of assets based on their actual cost of debt financing.

m) Deferred charges

Costs incurred by the Company related to its regulatory proceedings are deferred and amortized on a straight-line basis over a period as approved by the NSUARB.

2 Significant accounting policies (continued)

n) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results may differ from those estimates.

3 Revolving demand facility

The Company has a $1,000,000 revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus 1%, which is secured by a General Security Agreement over all personal property of the Company.

4 Property, plant and equipment

The Company's natural gas distribution network is comprised of mains, service lines and measuring and regulating equipment and facilities.

	2006			2005
	Cost $	**Accumulated amortization $**	**Net book value $**	**Net book value $**
Franchise acquisition	3,328,676	399,988	2,928,688	3,061,835
Mains and services	47,021,414	690,091	46,331,323	28,668,765
Regulating and metering stations	737,999	106,207	631,792	710,259
Meters	1,108,424	14,170	1,094,254	350,420
Computer systems	390,657	208,408	182,249	258,964
Vehicles and equipment	640,103	68,634	571,469	167,087
Tools, furniture and leaseholds	458,945	72,695	386,250	415,594
	53,686,218	1,560,193	52,126,025	33,632,924

In 2004, the Company constructed assets under a contract to service a large customer. These assets have been recorded as property, plant and equipment. At December 31, 2005, the customer had not connected for service and the assets had not been put into active service. In 2006, the Company activated the assets to supply other customers and, pursuant to a decision issued by the NSUARB on December 21, 2006, included a portion of the asset cost ($250,000) in rate base and the relevant operating costs in rates. Discussions continue with the large customer to fully utilize the assets, and the Company continues to explore alternative uses of these assets and is confident that these assets will be fully utilized in the foreseeable future. Based on projected cash flows, management does not consider the current value of the assets to be impaired. However, significant changes in results from those assumed in the current business plan could impact the estimated cash flows and should the economic values of these assets be determined to be impaired, a reduction in the book value of these assets could be material to income.

4 Property, plant and equipment (continued)

The Company has recorded $966,000 (2005 - $723,000) in AFUDC.

The Company has capitalized $2,590,494 (2005 - $2,974,870) of operating and maintenance expenses during the year. The effect of capitalizing operating expenses was to decrease expenses and increase property, plant and equipment.

Included in mains and services is work-in-progress in the amount of $6,450,452 for the year ended December 31, 2006 (2005 - $5,786,386). Depreciation of work-in-progress begins the year after the plant is brought into active service, as approved by the NSUARB.

5 Revenue deficiency account (RDA)

	2006 $	2005 $
Beginning of year	5,405,446	2,112,796
Revenue deficiency accrued during the year	4,908,695	3,292,650
End of year	10,314,141	5,405,446

The effect of accruing this revenue was to increase revenue and increase the RDA.

6 Deferred charges

Deferred charges include third party and regulatory costs incurred by the Company related to its regulatory proceedings. These charges are deferred as incurred and amortized on a straight-line basis over a period as approved by the NSUARB.

	2006 $	2005 $
Deferred charges	680,229	503,694
Accumulated amortization	(302,664)	(201,864)
	377,565	301,830

7 Long-term debt

	2006 $	2005 $
Shareholders' loans		
SaskEnergy Nova Scotia Holdings Ltd.	15,048,885	8,941,045
Silgascorp Inc.	7,509,429	4,461,604
AltaGas Utility Holdings (Nova Scotia) Inc.	7,479,384	4,443,755
	30,037,698	17,846,404
Province of Nova Scotia	5,600,000	5,600,000
	35,637,698	23,446,404

Shareholders' loans are unsecured and carry an NSUARB approved interest rate of 8.75% with interest paid quarterly. All loans are to be repaid in full on December 31, 2009. During the year, interest recorded on shareholders' loans was $2,031,251 (2005 - $1,213,346).

During 2005, the Company received $7.6 million from the Province of Nova Scotia. As prescribed capital investments targets were achieved by December 31, 2006, $2.0 million of the loan will be forgiven in 2007. The Company has recorded the $2.0 million as a reduction of property, plant and equipment.

The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6%. The Province of Nova Scotia loan is guaranteed on a proportionate basis of ownership by the shareholder companies. On or before July 1, 2011, the Company must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012. The Company may also elect to fully repay the loan at any time with no penalty.

8 Capital stock

Authorized
Unlimited number of common shares without nominal or par value

	Shares	$
Issued and outstanding		
December 31, 2004	8,162,000	8,162,000
Issued during 2005 for cash	4,116,596	4,116,596
December 31, 2005	12,278,596	12,278,596
Issued during 2006 for cash	7,403,706	7,403,706
December 31, 2006	19,682,302	19,682,302

9 Commitments

Future minimum lease payments for the next five years under operating leases for office space and office equipment are estimated as follows:

	$
Year ending December 31, 2007	210,810
2008	186,363
2009	174,592
2010	4,386
2011	2,166

10 Interest expense

	2006 $	2005 $
Interest expense on shareholders' loans	2,031,251	1,213,346
Guarantee fees paid to shareholders	51,222	-
Interest income net of bank charges	(42,727)	(24,425)
	2,039,746	1,188,921

11 Supplementary cash flow information

	2006 $	2005 $
a) Net change in non-cash working capital		
Accounts receivable	(1,119,013)	(922,626)
Inventory of supplies	12,477	250,741
Prepaid expenses	(52,043)	(24,726)
GCVA	12,769	(23,668)
Accounts payable and accrued liabilities	(1,207,239)	(139,757)
	(2,353,049)	(860,036)
b) Interest paid during the year	1,760,794	855,146
c) Non-cash transactions Additions to property, plant and equipment included in accounts payable and accrued liabilities	3,645,439	2,072,605

12 Financial instruments

The carrying values of the Company's financial instruments (accounts receivable, accounts payable and accrued liabilities and long-term debt) approximate fair value.

13 Related party transactions

Related party transactions with the Company's shareholders are recorded at their exchange amount which is considered to be at fair value. Related party transactions and balances were as follows:

	2006 $	2005 $
Operating and maintenance expenses	155,136	203,488
Interest expense	2,031,251	1,213,346
Guarantee fees	51,222	-
Accounts payable	179,893	189,728
Interest payable	628,657	358,200
Guarantee fees payable	12,806	-

14 Income taxes

As at December 31, 2006, the Company has approximately $14,557,000 in income tax loss carryforwards available to reduce future income taxes. These loss carryforwards expire as follows:

	$
Year ending December 31, 2010	1,218,000
2014	4,173,000
2015	3,963,000
2026	5,203,000

As of December 31, 2006, the unrecorded future income tax assets of the Company are approximately $1,817,000 (2005 - $1,016,000).

15 Subsequent event

On January 8, 2007, the shareholders advanced an additional $1,086,002 in common shares and $1,473,998 in loans.

16 Comparative figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.